2011 ANNUAL REPORT

EVOLUTION

TRANSFORMATION

CONNECTION

A GREEN CHOICE

VIA Rail Canada

THE HONOURABLE DENIS LEBEL
Minister of Transport, Infrastructure and Communities, Ottawa

THE HONOURABLE STEVEN FLETCHER
Minister of State (Transport), Ottawa

Dear Ministers,

In accordance with the provisions of the *Financial Administration Act*, I am pleased to submit VIA Rail Canada Inc.'s Annual Report for the year ending December 31, 2011.

Paul G. Smith
Chairman of the Board

viarail.ca

CONTENT

CORPORATE OVERVIEW

VIA Rail operates Canada's national passenger rail service on behalf of the Government of Canada. An independent Crown corporation established in 1977, VIA provides a safe, efficient and environmentally responsible service from coast to coast in both official languages. The corporation operates up to 497 trains weekly on 12,500 kilometres of track, connecting over 450 Canadian communities. With approximately 2,900 employees, VIA carried 4.1 million passengers in 2011.

TRANSFORMING PASSENGER RAIL

Since 2007 the Government of Canada has committed $923 million to upgrade tracks, modernize passenger stations, and renew passenger trains and technology. New stations and better equipment are already coming into service. As the capital investment projects are completed, VIA will operate more trains, deliver faster trip times, offer more frequent departures, and provide a better quality of service than ever before.

TRANSFORMING OUR BUSINESS

VIA is committed to a passenger rail service that is financially sustainable. As renewed equipment and facilities come into service, our business strategy is:

/ **Responsive** – matching market and customer demand with responsive schedules, providing better connections to other travel services, and delivering the right kind of service to meet the needs of different markets as efficiently as possible;

/ **Connected** – staying connected and in touch with customers and the communities VIA serves, to understand what they value in passenger rail;

/ **Efficient** – continually refining and streamlining operations to deliver more value to customers with existing resources, and eliminating wasted efforts that do not add to customer value.

SAFETY FOCUSED

VIA is committed to providing the safest passenger service in Canada. Across all of our operations, we ensure the highest level of safety possible for our customers, employees and the communities we serve. Throughout all of our capital investment projects, safety remains a top priority – from the design of our stations, to improved computerized traffic control and signalling, to upgrading tracks for safe operations.

In 2011, VIA was awarded the RAC Safety Award from the Railway Association of Canada.

OPEN AND ACCOUNTABLE

VIA is committed to the principles of good governance, and to operating Canada's passenger rail service in a manner that is open and accountable to the public. VIA responds quickly to requests for information, and meets regularly with the communities it serves to share future plans, discusss operational issues and listen to concerns. VIA maintains an ongoing dialogue with customers and the public through a new social media strategy and as of 2011, operating results are published every quarter on VIA's web site.

VIA'S SERVICES

Rapid Intercity Travel

In the densely populated Corridor between Ontario and Quebec, 429 trains per week provide fast, convenient, downtown-to-downtown travel between major urban and suburban centres and communities.

Long-distance Travel and Tourism

In Western and Eastern Canada, VIA's trains attract travellers from around the world and support Canada's tourism industry. The *Canadian*, VIA's legendary western transcontinental train, provides service between Vancouver and Toronto. In Eastern Canada, the *Ocean* runs between Montreal and Halifax.

Mandatory Services

VIA operates 50 trains per week in rural and remote regions of Canada. Mandated by the Government of Canada to meet essential transportation needs, these trains serve many communities where alternative, year-round transportation is limited or unavailable. They include service between Montreal and Gaspé, Sudbury and White River, Winnipeg and Churchill and Victoria and Courtenay (upon resumption of Vancouver Island rail service).

MESSAGE FROM THE CHAIRMAN

Paul G. Smith
Chairman of the Board

During my first full year as Chairman at VIA, the Board has pursued three key priorities:

/ To articulate a clear, practical vision for passenger rail in Canada, and ensure that VIA's strategic focus is aligned with that vision;

/ To make VIA a Canadian leader in good governance and accountability; and

/ To maintain and strengthen constructive relationships with our stakeholders and with the communities we serve across the country.

The cornerstone of our vision is a renewed and modernized passenger rail service. The $923 million investment by the Government of Canada since 2007 to improve track and equipment entered its final phase at the end of 2011. As projects continue to be completed, VIA is already moving forward with plans to improve the speed and frequency of passenger rail services in key markets across Canada, and achieve significant improvements in financial performance by 2017, in time to mark Canada's 150th anniversary.

At the same time, VIA's management team has refined the corporation's strategic focus on operational efficiency, and responding to market demand. This focus delivered good results in 2011, and the Board is confident that it will continue to achieve good results in the coming years.

As a Crown corporation, VIA is ultimately accountable to Canadian taxpayers for its performance. In 2011 we introduced a number of measures to strengthen accountability and implement best practices for governance of the corporation. A reorganization of the Board of Directors has helped to clarify the roles and responsibilities of the Board and its committees. New reporting measures, such as VIA's first Annual Public Meeting and easily accessible financial performance reports published every quarter, have underlined VIA's commitment to openness in it operations.

Good relationships with stakeholders go hand-in-hand with good governance. It was a priority throughout 2011, and will continue to remain a key objective, that we ensure constructive communications between VIA and Government stakeholders, as well as with communities across Canada involved with passenger rail. Ultimately the goal is to undertake initiatives that make it easier for Canadians to learn more about VIA, to question or comment on our actions and to keep abreast of our evolution.

I would like to thank Board members for their efforts to support the principles of good governance, and the work many members have performed in chairing the Board's committees. My colleagues and I also wish to thank Thom Bennett, who left the Board in 2011, for his services over the years.

Passenger rail has played an important, evolving role in Canada throughout history. As we approach Canada's 150th anniversary in 2017, we are confident that it is continuing to evolve as a viable, robust, and sustainable service in Canada – and as a valuable legacy for generations of Canadians to come.

MESSAGE FROM THE PRESIDENT

Marc Laliberté
President and Chief Executive Officer

2011 was an important transition year for VIA. We moved most major capital projects towards their completion. At the same time, we sharpened our business strategy to capture the benefits of this capital investment – to deliver more value to our customers, and make passenger rail a more relevant, efficient and financially sustainable service for the future.

This strategy focuses on three key operational challenges. First, we are aligning services more closely with market demand, so that we can deliver the right kinds of service, with the right kinds of schedules and connections, to meet customer needs. Second, we are getting closer to our customers – developing new ways to stay connected and in touch with people and communities. Third, we are streamlining operations at all levels to make sure that everything we do delivers the best value to our customers in the most efficient way possible.

These efforts are getting good results. In 2011, we increased revenues, with strong growth in business and leisure travel services – a significant accomplishment given the uncertain economic environment during the year. Efforts to improve on-time performance – the key factor in customer satisfaction – were successful in the Windsor-Quebec City corridor, which accounts for 80 percent of VIA's ridership. And we reduced our operating deficit before corporate taxes and funding from the Government of Canada more than expected.

Indeed, over the past two years, thanks in part to the nearly one billion dollar investment from the Government of Canada, VIA has been consistently improving its financial situation, both commercially and operationally. In fact, over the last two years, VIA has required $30 million less in government funding for operations (before contributions to pension plans). These results reflect the tremendous amount of focus, skill and hard work VIA employees bring to the job every day. I want to thank each employee for their dedication: together, we are transforming the future of passenger rail.

We can be proud of our achievements in 2011, and we can be confident that we are going to achieve more in the years ahead. But we can not be complacent. The last few years have taught us important lessons about how quickly travel markets can change, and the economic environment – in Canada and around the world – remains uncertain. VIA is prepared to respond quickly to these kinds of changes and to protect the gains we have made in passenger rail.

Over the next two years, new tracks, trains, stations and technology will continue to transform passenger rail in Canada. We are already moving forward to deliver faster, more frequent, more reliable and connected services in 2012. And we are continuing to focus on what counts: responding to markets and the needs of our customers in the most efficient way possible.

As we do so, I invite our customers, and all Canadians, to take a fresh look at passenger rail, and how it is changing. And then, tell us what you think. Tell us what we are doing right, and what more you would like to see. Talk to our people at train stations and on board our trains. Visit our website, our Facebook page, our Twitter account and our executive blog *VIA Evolution*, and learn how we are making it easier for you to reach us through social media.

We want to hear from you, and we will listen. Because ultimately, our customers are driving the future of our business, and the future of Canada's national passenger rail service.

In closing, at the time of writing this annual report, VIA has experienced a terrible tragedy. On February 26, 2012, Train 92, serving Niagara Falls to Toronto, derailed in Burlington, Ontario. Passengers were injured, some seriously, and three locomotive engineers lost their lives : Ken Simmonds, 56 years old, and Peter Snarr, 52 years old, both from Toronto, and Patrick Robinson, 40 years old, of Cornwall, Ontario. In my own 32-year career with Canada's railways, I have never experienced so much pain and sadness. As we move forward, the memory of these events will sustain our continued efforts and commitment to the safety of train travel for our passengers, our employees and all Canadians.

2011
AT A GLANCE

The following key financial indicators and operating statistics summarize the performance of the Corporation for the year 2011, with comparative data for the years 2007 to 2010.

	2011 (1)	2010 (1)	2009	2008	2007
KEY FINANCIAL INDICATORS (IN MILLIONS OF DOLLARS)					
Total passenger revenue	**264.8**	257.7	250.5	283.1	269.0
Total revenue	**282.6**	274.7	267.8	299.2	287.3
Operating expenses before employee benefits	**549.0**	545.8	553.1	591.2	527.4
Employee benefits	**25.8**	26.2	(1.1)	(35.1)	(35.6)
Operating expenses	**574.7**	572.1	552.0	556.1	491.8
Government funding (2)	**260.9**	261.5	226.3	214.2	200.6
Amortization of Deferred Capital Funding	**46.5**	49.0	56.4	50.9	53.6
Corporate Taxes	**(4.8)**	0.0	(4.0)	1.9	6.2
Net gain (loss) for the quarter	**20.1**	13.1	2.5	6.3	43.5
Capital expenditures	**237.0**	268.6	116.8	42.1	12.4
KEY OPERATING STATISTICS (3)					
Total passenger-miles (IN MILLIONS)	**851**	846	857	951	874
Total seat-miles (IN MILLIONS)	**1,541**	1,495	1,501	1,618	1,579
Operating deficit per passenger-mile (IN CENTS) (4)	**34.3**	35.1	33.2	27.0	23.4
Yield (CENTS PER PASSENGER-MILE)	**30.8**	30.2	29.0	29.6	30.5
Train-miles operated (IN THOUSANDS)	**6,580**	6,668	6,660	6,746	6,658
Car-miles operated (IN THOUSANDS)	**44,988**	43,651	44,525	46,961	46,362
Average passenger load factor (%)	**55**	57	57	59	55
Average number of passenger-miles per train mile	**129**	127	129	141	131
On-time performance (%)	**84**	82	83	75	77
Number of active employees at end of period	**2,843**	2,875	3,053	3,109	3,017
Number of full time equivalent employees during the year*	**2,899**	2,937	N/A	N/A	N/A

* *Data available for 2011 and 2010 only.*

(1) Financial results produced according to International Financial Reporting Standards (vs under Canadian Generally Accepted Accounting Principles for the previous years).

(2) Excludes internal funding from the Asset Renewal Fund ($34.9M in 2009).

(3) Key operating statistics are unaudited.

(4) Deficit before amortization of Deferred Capital Funding & Corporate Tax expense.

KEY OPERATING STATISTICS BY SERVICE GROUP

Passenger Revenues and Ridership (for the years ended December 31)

Service Group	Passenger Revenues* (IN THOUSANDS)		Passengers (IN THOUSANDS)		Passenger-Miles (IN THOUSANDS)		Government Funding (PER PASSENGER-MILE)	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Windsor-Quebec City Corridor	**$199,983**	$196,022	**3,778**	3,780	**627,465**	625,157	**$0.21**	$0.21
Long-distance and Tourism								
Canadian	**$41,441**	$38,925	**109**	106	**129,010**	125,848	**$0.36**	$0.40
Ocean	**$13,983**	$12,973	**134**	127	**63,361**	60,611	**$0.55**	$0.60
Mandatory Services	**$7,296**	$7,951	**109**	140	**31,249**	34,503	**$1.44**	$1.30

* Before off-train and other passenger revenues

CAPITAL INVESTMENT PROJECTS

In 2007 the Government of Canada announced a $516 million capital investment in passenger rail infrastructure and equipment. Another $407 million was invested in 2009, through the Government's economic stimulus funding program, Canada's Economic Action Plan.

With this $923 million investment, VIA is transforming its network by renewing train equipment, expanding track capacity, modernizing passenger facilities and stations, and upgrading technology. Once all projects are complete, VIA will be in a position to operate more trains, deliver shorter trip times, offer more frequent departures, and provide a better quality of service to Canadians.

In 2011, VIA created a new executive position, the Chief Capital Projects Officer, which will come into effect in 2012, to help manage current capital projects as they enter their critical final phase, and to oversee ongoing capital investment projects in the future.

TRACKING PROGRESS ONLINE

To communicate the transformation of passenger rail as it progresses, VIA launched a new website section (viarail.ca/transformingVIA) dedicated to its Capital Investment Projects. The website features up-to-date information on many of the train, track, station and technology projects currently underway across the network. Image galleries and additional project details create a comprehensive online reference point for all projects.

TRAINS

VIA's oldest locomotives and passenger cars are being rebuilt from the ground up, extending their life by 15-20 years at a much lower cost than buying new equipment. In addition, selected passenger cars used on all key routes across Canada are being made fully accessible to travellers with reduced mobility or other special needs.

The rebuilt equipment will improve environmental efficiency, reducing both greenhouse gas emissions and ongoing maintenance costs, while providing more reliable service to customers. Redesigned interiors will make train travel a more comfortable and enjoyable experience.

Locomotives

VIA's F-40 locomotives are used across Canada. As of December 31, 2011, work on 38 of these locomotives was completed, contributing to a further 2.2 million litre reduction in fuel consumption over 2010. In fact, since 2008, the project has contributed to an overall reduction in fuel consumption by 16 percent and a fuel cost savings of over $12 million. Once this project is completed in 2012, the rebuilt locomotive fleet is expected to further reduce greenhouse gas emissions and maintenance costs.

VIA also completed the overhaul of its fleet of 21 P42 locomotives for use throughout the busy Windsor-Quebec City corridor. The rebuilt locomotives offer improved operational and environmental efficiency.

Passenger Cars

Work on eight (8) of VIA's 98 LRC (Light, Rapid, Comfortable) cars was completed in 2011. The LRC cars are used throughout the Windsor-Quebec City corridor. New features include redesigned interiors, improved washrooms, additional baggage space, and new single seating options. In addition, 26 cars (one per train) will feature larger, fully accessible washrooms. Improved electrical and mechanical systems will reduce energy consumption by 20 percent.

Twelve Stainless Steel passenger cars used on VIA's *Canadian* are being completely reconfigured and modernized. These four (4) Park cars and eight (8) Deluxe Sleeper cars will offer a new level of comfort and service for customers travelling the legendary cross-Canada route between Toronto and Vancouver.

IMPROVING RAIL DIESEL CARS

VIA is rebuilding six (6) rail diesel cars. The project, which is funded through the Government of Canada's Economic Action Plan, will extend the life of the cars by 15-20 years, while providing a safe, accessible and reliable service for customers. New interiors will ensure the comfort of passengers with special mobility needs, and will include new washrooms, lighting and electrical systems. They will also be equipped with a new, more reliable and efficient propulsion engine.

ACCESSIBLE RENAISSANCE CARS

VIA is working in consultation with the Canadian Transportation Agency (CTA) and the Council of Canadians with Disabilities (CCD) to redesign 12 of its Renaissance passenger cars, ensuring that they meet the highest standards of accessibility. Once the modification program is complete, every Renaissance train operating in the Windsor-Quebec City corridor will include better seating for people with restricted mobility and those travelling with a service animal. Every Renaissance train set running from Montreal to Halifax will be equipped with a new, accessible Sleeper suite.

Work on six (6) of the cars was completed in 2011.

TRACKS

VIA is upgrading and increasing track capacity in the Windsor-Quebec City corridor, a region that accounts for over 80 percent of VIA's ridership. Most of this track is shared with freight trains, and the improvements will give greater flexibility for passenger rail operations – including faster service, better on-time reliability, and the capacity to add more frequent services between key destinations.

Track work includes:

/ Construction of sections of additional sidings and passing tracks along major parts of the Montreal-Toronto line, and in the Alexandria, Smiths Falls, Brockville and Chatham subdivisions, to reduce congestion between passenger and freight trains;

/ Installation of remotely controlled signalling to allow trains to move quickly and safely between locations and from one track to another;

/ Improved safety and security systems along the network, including an expanded Centralized Traffic Control (CTC) system;

/ Improvements to at-grade crossings – where roads and tracks meet – as well as the elimination of crossings where possible;

/ Upgrade of existing tracks to higher standards to allow passenger trains to operate at higher speeds.

As of December 31, 2011, track work was completed on VIA-owned infrastructure between Glen Robertson, Ontario and Ottawa (61 miles) and between Ottawa and Smiths Falls, Ontario (34 miles) as well as on CP-owned infrastructure between Smiths Falls and Brockville, Ontario (28 miles). The first section of third track being built on the Montreal-Toronto route was completed near Gananoque, Ontario, and the second section at Grafton, Ontario is substantially complete.

MAKING STATIONS "PASSENGER-FRIENDLY"

A customer's experience with VIA includes not just travel onboard the train, but their arrival and departure from VIA's stations. Along with major renovation and building projects, VIA is taking steps to enhance the customer experience at all passenger stations.

For example, improved direction signs and information displays ensure that customers know where to go when they arrive, and where to get help if they need it. VIA is also setting new standards for customer service, from the way customers are greeted at the station and helped on board trains, to their experience disembarking and arriving at the destination station.

STATIONS

VIA is upgrading and modernizing key passenger stations across the country to serve customers more efficiently, and to address operational and safety needs. In some cases, the projects involve much-needed repairs, like exterior masonry work and new roofing. In other cases, the work includes major upgrades to the existing facilities – improved platforms, passenger lounges, more energy efficient lighting, and better customer service areas. In some cities and towns, VIA is building entirely new stations to meet the needs of VIA passengers at these locations.

Major Upgrades

Major upgrades have been completed at Vancouver's Pacific Central Station, while preserving the features that mark the building as a heritage site. Pacific Central Station is the Western home for VIA's cross-Canada tourism service, the *Canadian*, and the gateway to Western Canada for visitors from around the world. It is also an architectural landmark, and a multimodal transportation hub.

Work was also completed in 2011 at Winnipeg Union Station, another heritage building celebrating 100 years of service. Following the upgrades, the station was awarded the BOMA BESt Level 2 certification (an award recognizing the building's environmental efficiency).

New Stations

In 2011 four (4) major projects involving new stations or new facilities (such as platforms and overhead bridges) were underway in Windsor, Oshawa, Cobourg, and Belleville, in preparation for expected increases in traffic and track expansion. In Smiths Falls, a new station was completed and is now in service.

STATION IMPROVEMENT PROJECT REGIONS

Eastern Canada	Quebec City, Montreal, Ottawa, Toronto	Southwestern Ontario	Western Canada
Chambord	Oshawa	London	Winnipeg
Halifax	Belleville	Niagara Falls	Kamloops
New Carlisle	Smiths Falls	Windsor	Vancouver
Moncton	Ottawa	Sarnia	
	Quebec City	Guelph	
	Sainte-Foy	Brantford	
	Montreal	St. Catharines	
	Cobourg		
	Toronto		
	Brockville		

TECHNOLOGY

VIA is investing in key information technologies which will enhance operational efficiency, improve revenues, and provide a better level of service to customers. For example, VIA is developing and improving revenue management technologies, to monitor and adjust fares and pricing strategies in response to market demand. This will allow VIA to improve revenues for high-and low-demand trains at the level of individual train services, markets, and days of the week.

In addition, enhanced reservation systems will provide better service to customers, including online and mobile access for trip planning, booking and ticket purchases, and better integration with systems used by other service providers and VIA's business partners.

Technology is the foundation for a wide range of applications to modernize VIA operations, increase efficiency, and offer new service options for customers. These include:

Mobile Wi-Fi Platform

A core component of VIA's technology investment strategy is an enhanced mobile Wi-Fi service. During the year, VIA reaffirmed its commitment to providing the best-in-class mobile Wi-Fi access to customers travelling by train in the Windsor-Quebec City corridor. In 2011, VIA doubled the speed and capacity of the mobile Wi-Fi platform, reaching a record peak of one Terabyte of data transfers over a single weekend in October. The full installation of the new mobile Wi-Fi network, which will offer connection speeds four (4) times higher than VIA's original system, will be completed in 2012.

Mobility

VIA expanded its use of mobile platforms in 2011. This included:

/ **Hand-held applications** for employees using "smart phones", giving staff on trains access to information such as passenger information, on board service procedures and updates, and operational data.

/ **Enhanced services** such as e-ticketing for customers.

Operational Efficiency

In 2011, **real time train information**, through a new geomapping system was implemented. This system will provide instant updates on the position and status of trains in the Windsor-Quebec City corridor to enhance train-dispatch services, alert staff to performance issues, and give customers accurate and timely information regarding train arrivals and departures.

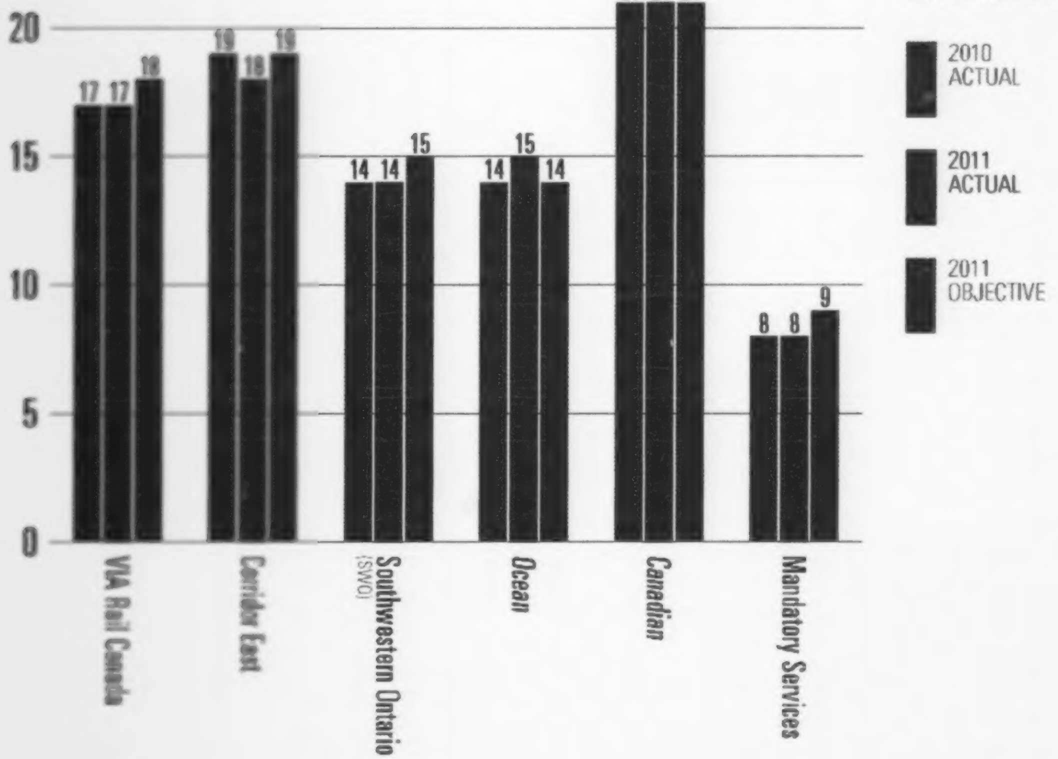
RESPONSIVE SERVICE

As new track and equipment come into service, it is more important than ever to ensure that VIA's range of passenger services are well aligned with different markets across Canada, and respond effectively to customer needs. This means fine-tuning services, schedules and fares to match market demand, coordinating services with other travel options available, and generating revenues that will keep passenger rail financially sustainable.

RESPONDING TO MARKETS

One way to measure how well services respond to market needs is to look at revenues per seat-mile, a Key Performance Indicator VIA adopted in 2010. Seat-miles are the number of seats available for sale, multiplied by the total number of miles travelled. Revenues per seat-mile indicate how well passenger rail service offerings and fares match the markets where they are offered.

PASSENGER REVENUES PER AVAILABLE SEAT-MILE
(cents)



NOTE

Numbers have been rounded to the nearest whole number

Revenues per seat-mile in 2011 remained stable, with especially strong performance in higher-yield services such as Business Class in the Quebec City-Windsor Corridor. Long-distance and tourism trains in both Eastern and Western Canada also performed well, surpassing revenue expectations during the peak summer season. VIA was able to maintain stable results overall in this measure despite an increase in capacity and the availability of more seat-miles in 2011.

Market Performance

Based on current assessments of 2011 travel markets by the Conference Board of Canada, VIA slightly outperformed markets during the year. Despite the poor performance of some traditional markets such as the UK and Germany, travel from overseas and the US grew faster than expected, as VIA worked to diversify its overseas customer base and strengthen partnerships with tour operators and agencies. Business from Australia and the US increased. VIA also worked closely with the Canadian Tourism Commission to develop emerging markets such as Brazil, India and China.

VIA also performed well in business travel markets. Corporate travel revenues increased by 19 percent over 2010, with markets such as Montreal-Quebec and Toronto-London performing especially well. The increase was driven by both new and existing corporate accounts, and by response to business travel needs in markets that are not well served by air travel.

Effective Revenue Management

VIA's revenue management strategy, developed in 2010, played an important role in achieving these results. The strategy sets the optimal price for a train seat at any given time for individual train services. This requires finding the right balance between getting the highest price possible in a given market, and using fare discounts or promotions to attract more customers and avoid operating trains with empty seats.

VIA's revenue management team monitors 500 trains per week, analyzing advance sales, available capacity and historical trends in order to determine how many discount seats should be offered on each train. Going forward, revenue management is expected to be a key contributor to revenue.

Marketing and Pricing Strategies

VIA tested new approaches to marketing campaigns, fare discounts and promotions that respond more quickly and effectively to shifts in market conditions. These campaigns were very effective in increasing revenues, attracting new customers, and stimulating interest in rail travel.

VIA also experimented with new ways to communicate seat sales and promotions. In a number of cases, campaigns were conducted entirely using online channels – websites and social media tools such as Facebook and Twitter – rather than traditional print and broadcast media. This approach reduced costs dramatically and consequently generated a much higher return than traditional methods.

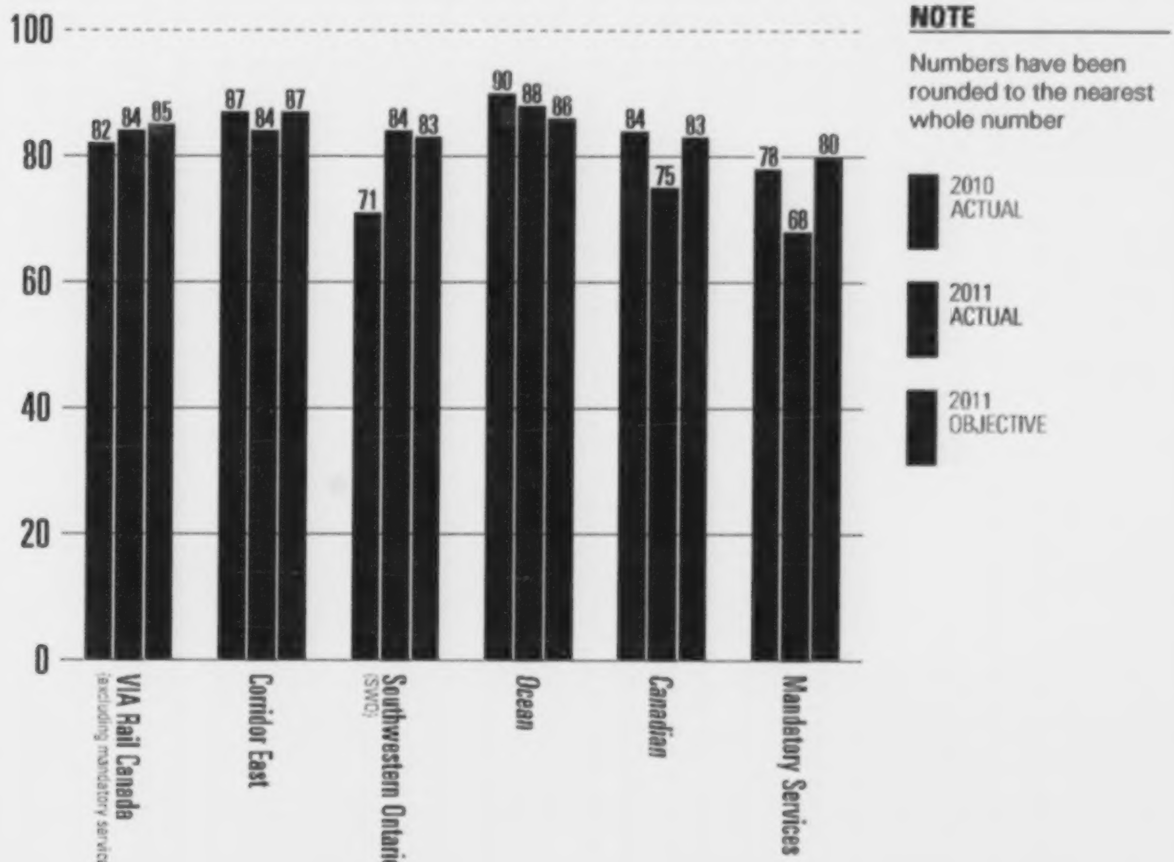
VIA also introduced a new Youth Fare option for young people between the ages of 12 and 25. Combining the old youth and student fare options into a single, simpler option offers more flexibility for young people travelling by train, at an attractive price.

ON-TIME PERFORMANCE

Throughout 2011, VIA implemented a range of initiatives to improve on-time performance (OTP). Customers have made it clear that ensuring trains depart on time, and arrive at their destination on schedule, is the single most important element that affects their satisfaction with VIA.

On-time performance was particularly challenging in 2011, as major track improvement and equipment rebuilding projects often disrupted service. Despite these disruptions, VIA improved on-time performance to 84 percent across the network.

ON-TIME PERFORMANCE
(%)



NOTE

Numbers have been rounded to the nearest whole number

Improved performance was largely the result of Lean projects – the work of special teams, drawn from all areas of the corporation, to identify and address issues regarding on-time departures and the reliability of trains en-route.

VIA developed a new Connecting Train Protocol to address the domino effect that can occur when a train departure is delayed, because another train carrying connecting passengers is late in arriving. The new Protocol provides consistent guidelines to ensure that, whenever possible, trains depart on time, while providing alternative arrangements for passengers who miss their connection due to a late arrival.

Another project followed a review of operations which showed that many OTP problems are the result of issues outside of VIA's direct control, such as the conditions of tracks or the performance of trains owned and operated by other railways. However, a review of operations showed many problems are caused by delays in train departures. Projects therefore focused on identifying and removing the source of departure delays, and making preparations for departure more efficient.

Other projects focused on servicing trains, reducing equipment-related delays and increasing overall performance reliability. In Southwestern Ontario, streamlined boarding and detraining helped to eliminate en-route delays between Toronto and Windsor. Similarly, at Ottawa station, an accelerated boarding and detraining process eliminated extended wait times for customers on the platform and expedited the overall boarding process. Additional projects underway include baggage handling processes, on-time performance control and monitoring, a reduction in turn-around time for run-through trains at Montreal Central station, and a program to streamline preparation procedures in the 30 minutes prior to a train's departure.

INCREASING CAPACITY BETWEEN MONTREAL, OTTAWA AND TORONTO

As major track work projects are completed between Montreal, Ottawa and Toronto, VIA is making good use of the increased capacity to offer more frequent and faster services, with more departure and arrival options for customers.

Planning for increased capacity is a complex process that began in 2010 and intensified throughout 2011. VIA is working closely with other track users, such as CN and CP, to ensure that new frequencies are introduced smoothly and in coordination with freight rail operations. In addition, VIA is developing new schedules in partnership with other service operators, such as GO Transit in the Greater Toronto Area, to ensure that connections between services provide the best travel options for customers.

VIA began testing two new Ottawa "through trains" for customers travelling between Montreal and Toronto in 2010. These through trains give customers the option of a route through Ottawa, and is an effective way to increase choice and flexibility for customers without adding new frequencies, using existing resources more effectively.

In 2011 VIA added three (3) more Ottawa through trains. The through trains proved to be very successful, with more and more customers choosing the route through Ottawa over a direct, faster route between Montreal and Toronto. The success of the through trains confirms that, while faster trip times are important to customers, more frequent service – which means more flexibility in choosing arrival and departure times – is also important in this market.

A new schedule for services between Montreal, Ottawa and Toronto was implemented in January 2012. This schedule further increases the number of options and express services for travellers throughout the region. Plans are also in place to increase the number of express services available later in 2012 as track work is completed.

INTEGRATING PASSENGER RAIL WITH OTHER SERVICES

In 2011, VIA took a closer look at how passenger rail services fit in with other modes of transportation in different markets and continued to develop intermodal partnerships. VIA's objective is to achieve better connections and integration between passenger rail and other travel services in order to:

/ Simplify the "door-to-door" travel experience for customers, providing convenient and seamless connections between car, rail, commuter and air travel.

/ Extend the reach of VIA's network into markets not served by rail, making train travel a more attractive option for customers travelling to and from these markets.

/ Harmonize VIA's intercity train services with other services – eliminating redundancies where customer needs are better served by others, and ensuring that VIA's services are well-integrated with the range of travel options available to customers.

Commuter Transit Partnerships

VIA improved its connections with GO Transit in the Greater Toronto Area, and launched a new partnership with GO early in 2011. This partnership allowed customers to purchase connecting tickets to GO commuter trains at four (4) stations which are served by both GO and VIA. This partnership was immediately successful, and by the end of 2011 the partnership agreement was extended to include all routes where both VIA and GO trains connect. The agreement allows customers to purchase tickets for both services in a single transaction online at viarail.ca, at a VIA ticket counter, or by calling VIA's toll-free reservation line.

In 2012, additional connections to GO services will be available for travellers to Barrie, Stouffville and New Richmond. VIA is also exploring options for connecting with GO bus services to Niagara Falls and Burlington.

VIA is discussing similar partnerships with OC Transpo in Ottawa, and AMT, the transportation service serving the greater Montreal region.

Integrated Air Connections

AirConnect is VIA's free shuttle service between Dorval train station and Montreal's Pierre Elliot Trudeau International Airport. In 2011, VIA made it easier for customers to reserve seats for this service – online, or through VIA's Counter Sales and Telephone Sales agents.

VIA has also established a partnership with Toronto Airport Express, the shuttle service between downtown Toronto and Pearson International Airport. This means, for example, that a customer travelling from Kingston to Toronto to catch a plane can settle all travel arrangements in one purchase. Additionally in 2012, VIA plans to stop select trains in Southwestern Ontario at Malton, providing yet another option for VIA passengers to connect easily to Pearson Airport.

Discussions have also begun with several international air carriers to provide an even greater level of integration between train and air travel – for example, by allowing a person overseas to book air travel to Montreal and a connecting train ticket to Quebec City in one seamless transaction.

Connecting to Outlying Markets

VIA works with other transportation providers who serve markets in areas where passenger rail is unavailable, such as regional bus services. In 2011, VIA entered into an agreement with Red Arrow Motorcoach, offering bus connections for VIA customers travelling to or from Calgary, Red Deer, Fort McMurray, Banff and Lake Louise.

When passengers select a trip online at viarail.ca between Jasper and Calgary, they are directed to book their train trip from Jasper and Edmonton, and invited to reserve the bus portion of their trip between Edmonton and Calgary on the Red Arrow Motorcoach website. On the Red Arrow Motorcoach homepage, internet users also have access to VIA's booking engine.

INTEGRATION FOR BICYCLE ENTHUSIASTS

Responding to the needs of customers who prefer to get around by bicycle when they arrive at their destination, VIA began offering "bike trains" several years ago – providing baggage space and racks for bicycles on selected services. In 2011 VIA increased the number of baggage cars and bicycle racks across the network, expanding the service to the Ottawa-Toronto and Montreal-Ottawa train markets.

Between June and September, use of the bicycle facilities increased 26 percent over 2010. VIA responded to the growing demand by making the additional bicycle racks available throughout the cold season as well.

CONNECTED SERVICE

Travel markets are ultimately driven by the choices and preferences of individual people. Responding to markets means, more than ever before, listening to people, understanding what they value, and responding to their concerns.

Connecting with customers is a priority for VIA as capital projects are completed, and the corporation prepares to introduce new services and frequencies in the years ahead.

BRINGING OPERATIONS CLOSER TO MARKETS AND CUSTOMERS

In 2011, VIA announced the restructuring of responsibilities within the corporation, to integrate all operating activities under one chain of command focused on the customer, and to decentralize operating teams into three regions.

With the new structure, responsibilities related to train operations, equipment maintenance, customer service, and real estate facilities management are integrated under the Chief Customer Experience Officer. This ensures that all operational activities and decisions are carried out to deliver the best value to customers as efficiently as possible.

At the same time, operating responsibilities will now be pushed closer to the different markets served across the country, with Regional General Managers responsible for operating teams located in Eastern, Central and Western Canada.

This new operational structure will come fully into effect in early 2012.

SOCIAL MEDIA

VIA was one of the first Canadian companies to advertise through online social media services, and has maintained active travel-related blogs for several years. In 2011, VIA expanded its social media presence with the implementation of a comprehensive strategy integrating services such as Facebook (facebook.com/viarailcanada) and Twitter (twitter.com/via_rail). Along with email, and VIA's award-winning website (viarail.ca), social media helps VIA to maintain a strong online presence, and engage in a more dynamic dialogue with customers than is possible in traditional media.

VIA launched its official Facebook page in April 2011. The page provides an opportunity for people to share their thoughts and train travel experiences, as well as learn about the latest VIA news, offers and promotions. By the end of the year, VIA had enhanced its Facebook presence by integrating a new travel blog, special promotions and marketing campaigns, and content for members of VIA Préférence, VIA's customer loyalty program.

VIA launched its official Twitter account in June 2011. Through this channel VIA engages in real-time conversation with its stakeholders, addressing a variety of customer concerns, queries and compliments. VIA has averaged over 2,700 monthly mentions since it began tracking statistics for the service in August 2011. A significant portion of these mentions have been positive comments from passengers on services provided by the corporation.

In September, VIA led a panel discussion on the use of social media to achieve business objectives and engage with a new generation of industry thought leaders during Social Media Week in Vancouver. Social Media Week, which is held simultaneously in 21 cities around the world, attracts some 60,000 attendees across thousands of individually-organized events, with half a million participants connecting online or through mobile devices.

VIA is expanding its social media strategy in 2012 with the launch of a new corporate blog, *VIA Evolution* (VIAEvolution.ca). The blog will feature weekly commentaries and insights from VIA executives on a variety of topics from long-term corporate strategies to daily operational challenges and opportunities.

CONNECTED SERVICES ONLINE

As VIA continues to invest in technology to improve its networking and reservation systems, new ways to make train travel information visible and accessible become available – by integrating online information about train travel with information about connection options from other services.

For example, Google Transit is an online service that allows travellers to enter their departure and arrival destinations, and view a variety of options with respect to routes, travel times and itineraries. In 2011, VIA's train services were included in Google Transit, and the Google Transit Trip Planner is now integrated with VIA's website.

CONNECTING ON BOARD

VIA's mobile Wi-Fi service has become increasingly important to customers – especially business travellers – who value the opportunity to make productive use of their travel time. On average, 2,400 customers connect to the Internet every day using the service, with most online traffic going to Facebook (25%), Google pages (17%), business sites (13%), technology sites (13%), and news sites (10%). VIA's service was certified by the Wi-Fi Alliance, a global association dedicated to the development and proliferation of Wi-Fi technology, in 2011.

Early in the year VIA doubled the speed and capacity of the mobile Wi-Fi system, and partnered with Nomad, a technology service provider, to improve the system even more. By the end of the year, Nomad had completed installation of a new system for the majority of trains in the Corridor, offering connection speeds four times higher than VIA's original Wi-Fi service – making it one of the best networks available on any mode of transportation.

CONNECTING WITH COMMUNITIES

VIA works hard to stay connected to the communities served by passenger rail, recognizing that train services play an important role in the economic and social life of communities across the country. For example, VIA often works with business and employer groups to discuss train services to the towns and cities where they operate, and how those services can best meet employee needs.

Staying connected also means keeping all communities informed of VIA activities, and consulting with them about initiatives such as service changes or infrastructure projects.

During 2011, VIA met with local representatives to discuss concerns ranging from the design of new stations in their communities to the introduction of e-ticketing for commuter rail passes. VIA was able to explain its plans and operational requirements, and these consultations produced improved station designs that addressed community needs.

In addition, VIA works with a variety of local, regional and national organizations, charity groups and non-profits to sponsor community and special-interest activities, public-interest events and fundraising initiatives across Canada.

RELATIONSHIP MARKETING AWARD

For the fourth year in a row, VIA received the Flèche d'Argent Award in the Transportation, Hotel and Travel category from the Relationship Marketing Association. The award was for the VIA Préférence loyalty program.

VIA Préférence was launched in 1996, and has been continuously refined and improved over the years. In 2011, VIA Préférence member trips increased by five (5) percent while member revenues were up four (4) percent. In total, VIA Préférence now has 530,000 members.

EFFICIENT SERVICE

VIA continuously reviews the way it provides passenger services to ensure that it is doing so in the most efficient way possible. This is particularly important as new track and equipment becomes available, providing opportunities to deliver new service and value to Canadians, while achieving greater financial stability for passenger rail.

SAFETY

Safety is a key component of operational efficiency, and the top priority for VIA in all aspects of its operations.

One of VIA's Key Performance Indicators measures safety in terms of train incidents per million train-miles. Train incidents include events such as train-to-train collisions, derailments, and rule violations. They do not include accidents with vehicles at road crossings, or incidents involving people trespassing on rail property, which are beyond VIA's direct control.

While the total number of incidents in 2011 was lower than in 2010, VIA's goal is always to achieve zero incidents.

At the time of publishing this report, a train derailment in Burlington, Ontario caused the tragic death of three (3) VIA locomotive engineers and injured several passengers. The Corporation is collaborating with the authorities investigating the accident, such as the Transportation Safety Board and its railway partner CN, owner of the track.

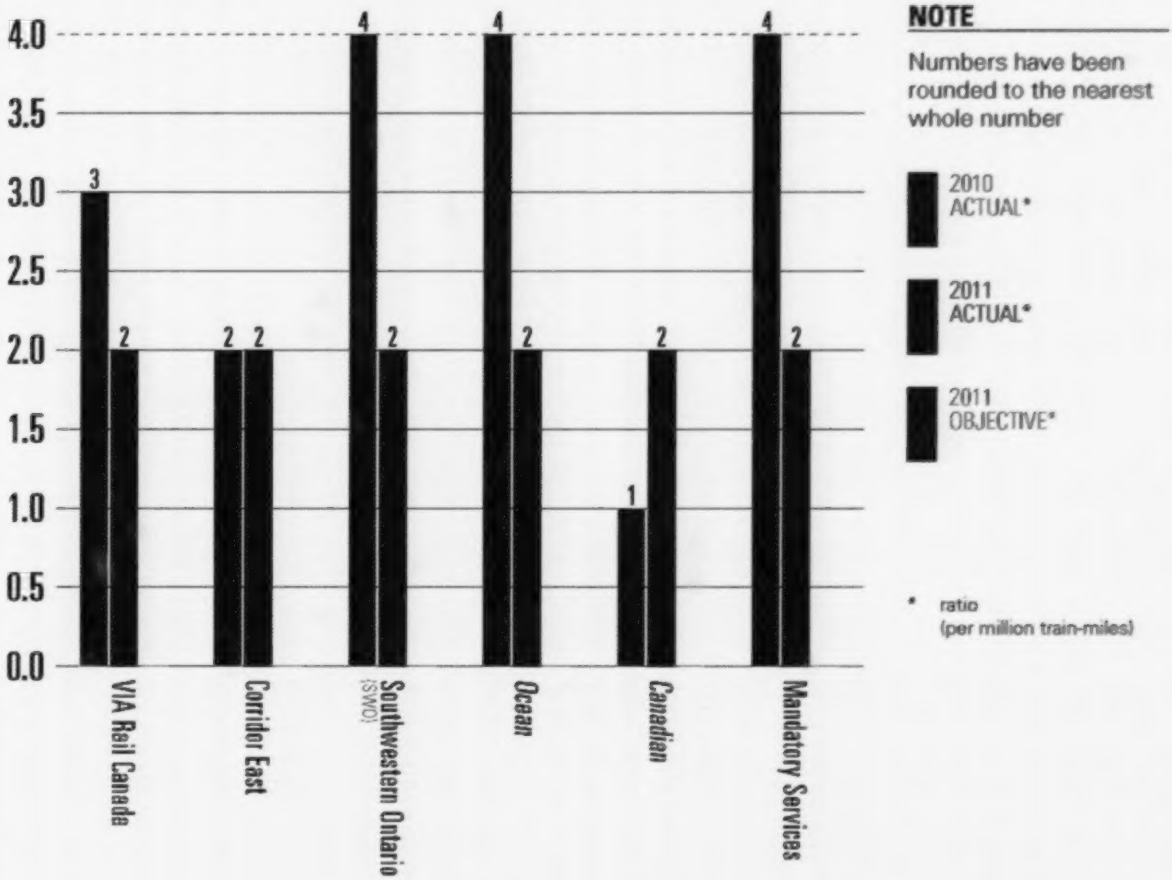
ON TRAIN AUTOMATION

In 2011, VIA began to equip its on-train employees with smart phones. The use of mobile technology will improve VIA's business processes, facilitate the work of hundreds of employees on trains and in stations and improve service delivery.

Initially, technology will allow employees to access the passenger manifest, the on-train services guide and other information essential to their work, in real time.

A second phase, planned for 2012, will make it possible to issue electronic tickets to a majority of customers, simplifying the boarding process and the customer's overall experience.

TRAIN INCIDENTS PER MILLION TRAIN-MILES



To move closer to the goal of zero incidents, VIA has developed a new centralized Incident Management System, used by employees to record all safety-related incidents, workplace accidents and "near-misses". The new web-based system replaces ten different databases that previously contained data on safety, security and environmental incidents at VIA. By standardizing and centralizing all of this information, the system provides better tools for identifying and analyzing safety issues, and taking action to improve safety in the future.

In addition, VIA began training local managers to carry out track inspections, identify track issues, and supervise any necessary repairs at VIA stations and facilities. The new Track Inspection Guidelines course provides basic knowledge of track inspection, enabling participants to identify various types of defects that might lead to safety incidents.

Improving Grade Crossing Safety

Most train incidents involving third-party vehicles occur at places where rail lines cross roads. VIA is working to improve or eliminate such crossings with public roadways wherever possible, as part of the capital investment track projects.

However, many crossings are located on private property. In such cases, VIA is actively contacting the private owners, encouraging them to close these crossings with help from Transport Canada's national Grade Crossing Closure Program. In 2011, the Railway Association of Canada recognized VIA's success in achieving closures with a rail safety award, citing VIA's "unrelenting efforts to reduce the potential for fatality and injury incidents" at crossings.

Increasing Public Safety Awareness

VIA is regularly involved with efforts to increase public awareness of the safety issues involving grade crossings and trespassing on rail property, including Operation Lifesaver activities at schools and in communities across the country.

In 2011, VIA worked with partners to improve safety in high-risk areas, co-hosting an event with CN Police to raise awareness and promote prevention with stakeholders from Quebec and Ontario police forces, Transport Canada, Sûreté du Québec, the Chief Coroner of Quebec, the Railway Association of Canada, and Teamsters, among others.

VIA also actively supported two safety awareness campaigns in 2011: North American Occupational Safety and Health (NAOSH) Week and Rail Safety Week. NAOSH Week, held annually in May, promotes the prevention of injury and illness in the workplace, at home and in the community. VIA's Health and Safety Committees organized various activities across VIA's network to support the initiative, including information kiosks at stations, safety presentations at local schools and safety-related workshops, discussions and video presentations.

VIA also held public awareness events across many VIA stations to support Rail Safety Week, a national public awareness campaign to promote awareness of the dangers around railway property. VIA organized special video presentations, set up information kiosks, and offered customers travelling on board VIA trains or through VIA stations a copy of the Public Safety Rail Guide that promotes passenger safety tips. In addition, representatives from VIA visited a number of local schools and daycares to deliver important safety presentations to students and teachers and held in-station and crossing safety blitzes to educate the public about the importance of rail safety.

Health and Safety Committees and Conferences

In 2010, VIA made changes to the structure of its Health and Safety Policy Committees to include executive-level managers among the committee members. This change allowed the committees, which are comprised of both management and unionized members, to focus more efficiently on enhancing VIA's safety culture by eliminating unnecessary bureaucratic obstructions. As a result of these modifications, VIA saw dramatic improvements in the way members collaborate with one another in 2011, leading to stronger safety-related processes and more effective management of high-risk environments.

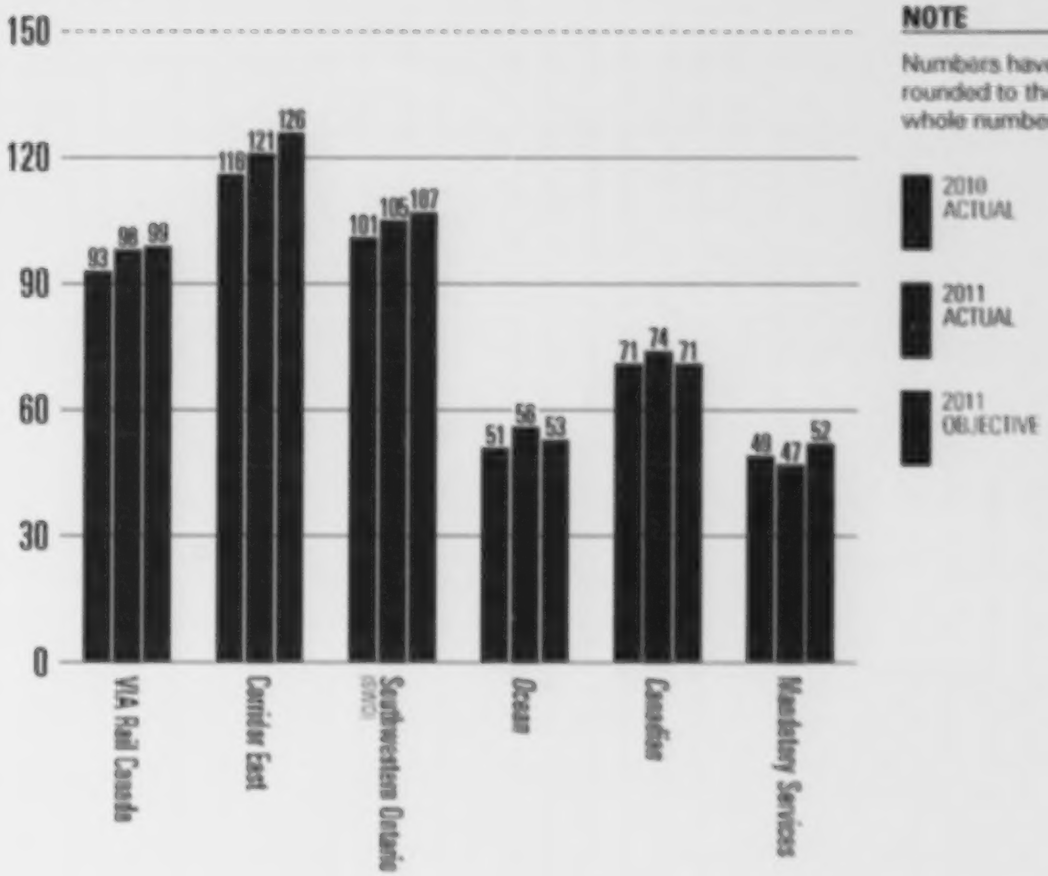
In 2011, VIA held the first annual Occupational Health and Safety Conference, in conjunction with the Canadian Auto Workers' union (CAW). The two-day conference covered a number of safety topics, including Policy Committee mandate reviews, discussions on how to conduct effective Health and Safety meetings and accident investigations. Participants attending the conference also had the opportunity to review their roles and responsibilities related to safety matters, and share best practices with their colleagues. This new initiative supports the efforts being carried out by Health and Safety Policy Committees, ensuring that safety remains at the forefront of all VIA activities.

LEAN MANAGEMENT

In 2010, VIA began implementing an approach to improve efficiency through Lean Management projects. In these projects, teams examine selected work processes and identify their outcome in terms of value to the customer. They then take apart the processes, to find ways to increase value to the customer, while eliminating non-value added activities and – if possible – reducing costs.

By the end of 2011, 35 Lean projects were in progress, completed or planned for future implementation, involving 177 employees throughout the corporation. These projects have already achieved valuable results – such as improving the on-time performance of VIA's trains, resolving customer complaints more quickly, reducing equipment maintenance delays, and achieving significant savings in areas such as fuel costs and track maintenance.

TOTAL REVENUE PER EMPLOYEE (FULL-TIME EQUIVALENT) ($000's)

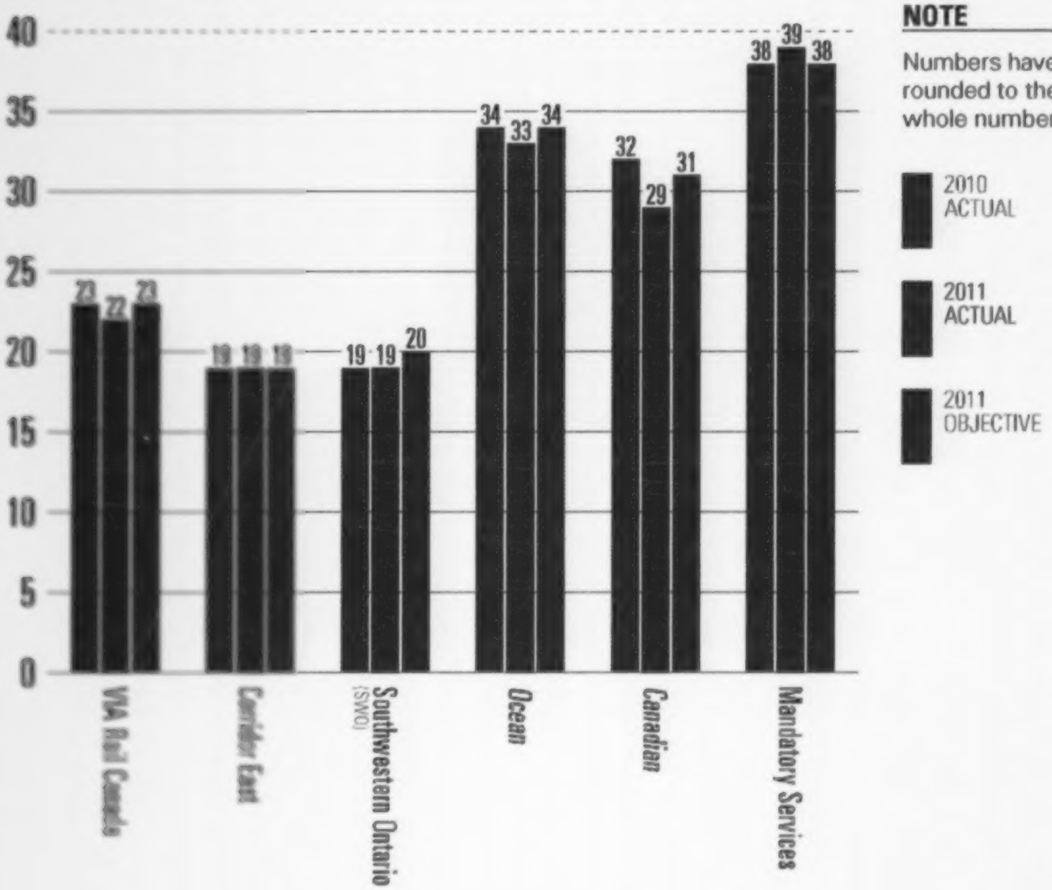


NOTE

Numbers have been rounded to the nearest whole number

One project at the Vancouver Maintenance Centre, for example, focused on the processes involved in performing the mechanical check of locomotives before each departure. Employees directly involved in the processes were asked to find the root causes of any delays, and design new work processes that allow them to do their work more efficiently. As a result, the team has implemented a more standardized method of inspecting locomotives and streamlined servicing processes which not only reduce the time required, but provide better quality inspections. This in turn reduces the number of train delays for customers – and gives maintenance staff more time to focus on other revenue-generating tasks.

DIRECT COSTS PER AVAILABLE SEAT-MILE
(cents)



NOTE

Numbers have been rounded to the nearest whole number

EMPLOYEE ENGAGEMENT

VIA completed an Employee Engagement Survey in 2011. Based on the results of this survey, an action plan was developed to provide the tools and support employees need to become more engaged in VIA's success.

The action plan, which will continue to be implemented in 2012, focuses on three key areas:

/ Ensuring that senior leadership provides clearer direction, communication to employees and support to managers;

/ Providing better employee coaching, performance feedback and recognition, along with better opportunities for employees to learn and grow within the organization;

/ Improving the work tools, processes and resources employees need to contribute to VIA's success, to the best of their abilities.

VIA was pleased that Teamsters Canada Rail Conference ratified a four-year contract with VIA in 2011, with strong support from their members.

TRAINING LOCOMOTIVE ENGINEERS

With many locomotive engineers in the industry nearing retirement age, VIA developed its first program to train new engineers in-house to supplement the declining numbers of eligible engineers available from other railways and elsewhere.

The first round of students, all current VIA employees, began their training in January 2011, and VIA has now opened the program to external candidates who are already qualified as conductors.

ENVIRONMENTAL EFFICIENCY

VIA is recognized as "A Green Choice" for travel, with trains generating far lower greenhouse gas emissions per passenger-kilometre than travel by air or individual travel by private automobile. To improve its environmental performance even further, VIA has adopted new technologies and practices that have reduced fuel consumption by 34 percent per passenger-kilometre, and greenhouse gas emissions by 29 percent since 1990, the year VIA began operating its current network.

Capital investment projects now underway to rebuild VIA's locomotives and passenger cars will upgrade the equipment to the latest environmental standards – resulting in additional reductions in fuel consumption and emissions.

VIA's Environmental Management System addresses other aspects of environmental efficiency, such as the handling and disposal of waste materials and hazardous chemicals involved in train maintenance. This system is regularly subject to stringent internal audits, and audits by external third parties.

Maintenance centres have been ISO certified with respect to environmental standards for a number of years. In the past year, VIA's ISO 14001 certification was renewed for the Montreal, Winnipeg and Vancouver Maintenance Centres.

In 2011, a new diesel fuel storage and distribution system for locomotives was installed at the Toronto Maintenance Centre, and a new diesel fuel storage and distribution line was installed at the Montreal Maintenance Centre. Both the new system and the new distribution line comply with the most current environmental regulations.

STATION RENOVATIONS EARN ENVIRONMENTAL AWARD

Renovations completed in 2011 at Winnipeg Union Station, in time for its 100th anniversary, included upgrades to make the station more energy efficient, while carefully maintaining the distinctive features of the heritage building's Beaux-Arts design. As a result of these upgrades, Union Station was awarded the BESt level 2 certification for energy efficiency by the Building Owners and Managers Association (BOMA) of Manitoba.

GOVERNANCE AND ACCOUNTABILITY

THE BOARD OF DIRECTORS

The Board of Directors consists of the Chairperson, the President and Chief Executive Officer and other directors appointed by the Government of Canada. The Board is responsible for overseeing the strategic direction and management of the Corporation, and reports on VIA's operations to the Minister of Transport, the Honourable Denis Lebel, and the Minister of State (Transport), the Honourable Steven Fletcher.

The Corporation and its Board of Directors are committed to implementing principles and best practices of good governance. All members of the Board sign a code of ethics reflecting the spirit and intent of the Accountability Act, which sets out standards of transparency and accountability for the officers and directors of Crown corporations.

Early in the year the Chairman and Directors conducted a review of the Board's structure and its committees. As a result, the structure has been simplified – reducing the number of committees from six (6) to five (5). In addition, new mandates were developed for each committee and for the Board as a whole.

The new structure and mandates were adopted to support more effective and efficient governance, while ensuring that the Board complies with recent changes in regulations affecting Board responsibilities.

During 2011, nine (9) Board meetings and 23 Board Committee meetings were held. The average attendance rate by Directors at these meetings was 93 percent. The cumulative fees paid to Board members in 2011 was $195,600.

PUBLIC ACCOUNTABILITY

VIA held its first Annual Public Meeting on June 14, 2011 at the Ottawa train station. Broadcast simultaneously on the Internet, the meeting provided an opportunity for the public to learn about VIA's business operations, financial performance and VIA's projects for improvements. It also gave the public a chance to speak directly with VIA's Chairman, President and executive officers. The Chairman and executive officers also answered questions sent by email from members of the public who could not attend in person.

In conjunction with the meeting, VIA held a reception for local stakeholders, business partners, Members of Parliament and VIA Préférence program members, and met with the newly appointed federal transport ministers.

VIA also began publishing quarterly reports detailing financial and operating performance in the second quarter of 2011.

ACCESS TO INFORMATION AND PRIVACY

VIA believes that openness and transparency are the starting point in building a trusted relationship with customers, and with the public in general. VIA became subject to both the *Access to Information Act* and the *Privacy Act* in 2007.

For the reporting period of April 1, 2011 to March 31, 2012, VIA has received 41 requests to date under the *Access to Information Act* in comparison to 32 requests received during the 2010 reporting period.

Starting in June 2012, a brief summary of all completed requests that have been answered by VIA under the *Access to Information Act* will be listed on VIA's website at viarail.ca.

VIA's Board of Directors meets the Minister of State (Transport). Seated (l-r): Wendy A. King, the Honourable Steven Fletcher, Minister of State (Transport), Angela Ferrante. Standing (l-r): Eric Stefanson, Vice-Chairman of the Board, William M. Wheatley, Denis Durand, Donald Mutch, Marc Laliberté, President and CEO, Thom Bennett, David Hoff, Paul G. Smith, Chairman of the Board, Anthony Perl, Jeffrey R. Clarke, Jean-Martin Masse. Absent: France Bilodeau.

OFFICIAL LANGUAGES

VIA is committed to upholding the principles of the Official Languages Act. VIA employees share this commitment with customers by actively demonstrating a willingness to provide service in either English or French. Our Official Languages policies apply to all communications, whether on the telephone, in a station, online or on board our trains. We also maintain a work environment where employees can speak the language of their choice, in regions designated bilingual. All internal and external communications are written in French and in English, and VIA uses both languages in its business practices.

In the fall of 2011, VIA conducted a survey of employees in regions designated bilingual for language of work purposes to determine their ability to work in both official languages. The results of that survey will help the corporation to identify issues that need to be addressed to ensure VIA meets the language needs and expectations of employees and to comply with the Official Languages Act.

VIA recognizes that it can play a valuable role in promoting linguistic duality in Canada. On September 8, 2011, the corporation supported Linguistic Duality Day for the second consecutive year, communicating its commitment to linguistic duality through on-board customer announcements, postings on social media websites, and other communications activities.

VIA has an active outreach program working with Official Language Minority Community (OLMC) organizations to support linguistic duality across Canada. The program engages organizations to discuss VIA's bilingual services available to them, and sponsorships for community fundraising events. In 2011, VIA provided support to organizations such as the Société francophone de Victoria, the Réseau du développement économique et d'employabilité de l'Ontario, the Fondation franco-ontarienne and Francofonds in Winnipeg.

COMMUNITY INVOLVEMENT

VIA works with a variety of local, regional and national charity groups and non-profit organizations to support community activities, fundraisers and initiatives across the country. Promotional travel credits are donated to qualifying organizations that have submitted requests through VIA's website.

In 2011, VIA supported 1,287 non-profit and charitable organizations with travel credit donations representing a total value of $1,148,000.

TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES

The following travel, hospitality and conference expenses were submitted in 2011:

Paul G. Smith, Chairman of the Board - $9,649

Marc Laliberté, President and CEO - $27,468

Officers (seven members) - $134,462

Board of Directors (12 members) - $32,983

MANAGEMENT DISCUSSION AND ANALYSIS

This is a review of VIA Rail Canada's operations, performance and financial position for the quarter and year ended December 31, 2011, compared with the quarter and year ended December 31, 2010. It should be read in conjunction with the financial statements and notes.

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). Figures for 2010 have been adjusted and converted to International Financial Reporting Standards (IFRS), as the annual report for 2010 presented financial statements under Canadian Generally Accepted Accounting Principles (Canadian GAAP).

1. FINANCIAL HIGHLIGHTS

	Quarters ended December 31				Years ended December 31			
IN MILLIONS OF CANADIAN DOLLARS	2011	2010	Var $	Var %	2011	2010	Var $	Var %
Passsenger Revenues	**63.6**	65.9	(2.3)	(3.5)	**264.8**	257.7	7.1	2.8
Total Revenues	**68.1**	71.0	(2.9)	(4.1)	**282.6**	274.7	7.9	2.9
Operating expenses	**141.8**	147.4	(5.6)	(3.8)	**574.7**	572.1	2.6	0.5
Operating deficit before funding from Government of Canada and corporate taxes	**(73.7)**	(76.4)	(2.7)	(3.5)	**(292.1)**	(297.4)	(5.3)	(1.8)
Operating funding from Government of Canada	**61.8**	68.9	(7.1)	(10.3)	**260.9**	261.5	(0.6)	(0.2)
Amortization of deferred capital funding	**13.4**	10.9	2.5	22.9	**46.5**	49.0	(2.5)	(5.1)
Corporate taxes	**(1.7)**	0.4	2.1	n/a	**(4.8)**	0.0	4.8	n/a
Net income and comprehensive income	**3.2**	3.0	0.2	6.7	**20.1**	13.1	7.0	53.4

Revenues have increased by 2.9 percent compared to 2010; passenger-miles have grown by 0.6 percent combined with higher yields achieved through the Corporation's revenue management program, especially in the Windsor-Quebec City corridor and Long-distance and Tourism routes.

Operating expenses rose by $2.6 million, due to the non-realized loss on derivative financial instruments (which represents the "mark to market" adjustment on derivative financial instruments at the end of the period).

As a result, the Operating deficit before funding from the Government of Canada, amortization of deferred capital funding and corporate taxes has decreased by $5.3 million (1.8 percent).

Highlights of the quarter

Compared with the quarter ended December 31, 2010:

/ Revenues have decreased by 4.1 percent and total $68.1 million for the quarter;

/ Operating expenses before corporate taxes and amortization of deferred capital funding have decreased by 3.8 percent and amount to $141.8 million for the quarter;

/ Funding from Government of Canada decreased by 10.3 percent to $61.8 million for the quarter;

/ There is a net profit of $3.2 million for the quarter, compared to a profit of $3.0 million for the same quarter of 2010.

Highlights of the year ended December 31, 2011

Compared with the results of the year ended December 31, 2010:

/ Revenues have grown by 2.9 percent and total $282.6 million for the period;

/ Operating expenses before corporate taxes and amortization of deferred capital funding have increased by 0.5 percent and amount to $574.7 million for the period;

/ Funding from Government of Canada decreased by 0.2 percent to $260.9 million for the period;

/ There is a net profit of $20.1 million in 2011, compared to a profit of $13.1 million in 2010.

2. HIGHLIGHTS OF OPERATING RESULTS

a) Passenger Revenues

	REVENUES (IN '000 000S)							
	Quarters ended December 31				Years ended December 31			
	2011	2010	Var $	Var %	**2011**	2010	Var $	Var %
Corridor East	**39.7**	41.4	(1.7)	(4.1)	**155.1**	151.9	3.2	2.1
Southwestern Ontario (SWO)	**11.6**	12.5	(0.9)	(7.2)	**44.9**	44.2	0.7	1.6
Ocean	**3.2**	2.9	0.3	10.3	**14.0**	13.0	1.0	7.7
Canadian	**6.9**	6.6	0.3	4.5	**41.4**	38.9	2.5	6.4
Mandatory Services	**1.6**	1.8	(0.2)	(11.1)	**7.3**	7.9	(0.6)	(7.6)
Other	**0.6**	0.7	(0.1)	(14.3)	**2.1**	1.8	0.3	16.7
TOTAL	**63.6**	65.9	(2.3)	(3.5)	**264.8**	257.7	7.1	2.8

	PASSENGER MILES (IN '000 000)							
	Quarters ended December 31				Years ended December 31			
	2011	2010	Var $	Var %	**2011**	2010	Var $	Var %
Corridor East	**125.3**	130.7	(5.4)	(4.1)	**500.4**	497.1	3.3	0.7
Southwestern Ontario (SWO)	**32.6**	35.0	(2.4)	(6.9)	**127.1**	128.0	(0.9)	(0.7)
Ocean	**13.9**	12.2	1.7	13.9	**63.4**	60.6	2.8	4.6
Canadian	**25.0**	22.5	2.5	11.1	**129.0**	125.9	3.1	2.5
Mandatory Services	**6.7**	7.5	(0.8)	(10.7)	**31.2**	34.5	(3.3)	(9.6)
Other	**-**	-	-	-	**-**	-	-	-
TOTAL	**203.5**	207.9	(4.4)	(2.1)	**851.1**	846.1	5.0	0.6

Passenger revenues total $63.6 million for the quarter, a decrease of 3.5 percent compared to the corresponding quarter last year. The decrease stems from the lower ridership and yields, due mostly to increased competition from airline and bus companies in the Corridor.

On an annual basis, passenger revenues totaled $264.8 million and have grown by 2.8 percent compared to the previous year. The increase is attributable to higher revenues achieved in the Corridor through the Corporation's revenue management program, as well as to the strong performance of leisure markets during the peak summer season.

For the quarter:

- Corridor East revenues are 4.1 percent below last year, and result mainly from lower ridership (4.1 percent less passenger miles), yields remained stable. The decrease in passenger-miles during the quarter was more significant than the decrease of passengers, reflecting the fact that the erosion of ridership affected end to end markets;
- Revenues in SWO have decreased by 7.2 percent also as a result of lower ridership (6.9 percent less passenger-miles) and lower yields (-0.4 percent);
- Revenues on the *Ocean* have grown by 10.3 percent, due to increased volume (+13.9 percent passenger-miles), partly offset by lower yields (-3.2 percent):
- Revenues on the *Canadian* have grown by 4.5 percent over the previous year. The performance stems from higher volume (11.1 percent more passenger-miles), partly offset by lower yields (-5.9 percent);
- Mandatory services have generated lower revenues (-11.1 percent), a situation which is directly attributable to the interruption of the Victoria-Courtenay service earlier this year.

For the year ended December 31:

- Corridor East revenues have grown by 2.1 percent, as a result of higher yields (+1.4 percent) combined with a slight growth in volume (+0.7 percent more passenger-miles). Passenger levels remained stable versus last year, so the higher growth in passenger-miles indicates that the growth in passengers was achieved on end-to-end markets;
- Revenues in SWO have progressed by 1.6 percent and also result from higher yields (+2.3 percent), partly offset by a slight decrease in volume (0.7 percent less passenger-miles);
- Revenues on the *Ocean* have grown by 7.7 percent due to growth in ridership (4.6 percent more passenger-miles) and improved yields (+2.9 percent);
- Revenues on the *Canadian* are 6.4% above last year's levels, and also result from growth in ridership (2.5 percent additional passenger-miles) and improved yields (+3.9 percent);
- Revenues generated from Mandatory services decreased by 7.6 percent, a direct impact of the interruption of the Victoria-Courtenay service since April 2011 (bus service offered until August 7, 2011).

b) Operating Expenses

IN MILLIONS OF CANADIAN DOLLARS	Quarters ended December 31				Years ended December 31			
	2011	2010	Var $	Var %	2011	2010	Var $	Var %
Compensation & Benefits	**52.7**	55.4	(2.7)	(4.9)	**226.8**	223.2	3.6	1.6
Train Operations & Fuel	**33.4**	31.5	1.9	6.0	**126.5**	118.1	8.4	7.1
Other operating expenses	**49.9**	51.0	(1.1)	(2.2)	**199.5**	205.8	(6.3)	(3.1)
Unrealized loss (gain) on derivative financial instruments	**0.0**	(3.5)	3.5	n/a	**2.4**	(7.4)	9.8	n/a
Realized loss (gain) on derivative financial instruments	**(1.9)**	1.0	(2.9)	n/a	**(6.3)**	6.2	(12.5)	n/a
Total Operating expenses before Employee benefits, amortization of deferred capital funding & corporate tax expense	**134.1**	135.4	(1.3)	(1.0)	**548.9**	545.9	3.0	0.5
Employee Benefits	**7.7**	12.0	(4.3)	(35.8)	**25.8**	26.2	(0.4)	(1.5)
Total Operating expenses before amortization of deferred capital funding & corporate tax expense	**141.8**	147.4	(5.6)	(3.8)	**574.7**	572.1	2.6	0.5
Corporate taxes	**(1.7)**	0.4	(2.1)	n/a	**(4.8)**	0.0	(4.8)	n/a
TOTAL OPERATING EXPENSES BEFORE AMORTIZATION OF DEFERRED CAPITAL FUNDING	**140.1**	147.8	(7.7)	(5.1)	**569.9**	572.1	(2.2)	(0.4)

For the quarter:

- Operating expenses before employee benefits, amortization of deferred capital funding & corporate tax expense decreased by $1.3 million and total $134.1 million for the quarter, mainly due to timing in the payments of employee benefits, and lower train operations and fuel (after adding the impact of the realized gain on fuel hedging). A portion of the train operations and fuel cost decrease results from savings generated by the interruption of the Victoria-Courtenay service earlier this year (savings for the quarter are estimated at $0,7 million);

- These decreases were partly offset by the reduction in unrealized gain on derivative financial instruments (which represents the "mark to market" adjustment on derivative financial instruments at the end of the period).

For the year ended December 31:

- Operating expenses before employee benefits, amortization of deferred capital funding & corporate tax expense rose by $3.0 million and amount to $548.9 million. The increase results primarily from the unrealized loss on derivative financial instruments (the "mark to market" adjustment recorded on derivative financial instruments at the end of the period), as well as higher compensation costs (mostly for training of new locomotive engineers).

- These increases were partly offset by a decrease in train operations and fuel expenses (after adding the impact of the realized gain on fuel hedging), lower maintenance and material costs and lower operating taxes. A portion of the decrease in train operations and fuel results from the savings generated by the interruption of the Victoria-Courtenay service earlier this year (savings for the year are estimated at $1.6 million);

- The Corporation generated a credit of $4.8 million in Corporate taxes, as compared to a charge of $0.0 million in 2010. The credit is mostly attributable to a tax refund received for prior years' taxes;

- Employer contributions to the pension plans have increased since 2010 as a result of additional contributions for past services. Given the size of the Corporation's pension plan ($1.6 billion) and the current financial market conditions which could materially impact the funding status of the Plan, additional contributions for past service will be made in the next five years to reduce the plan's actuarial deficit.

c) Operating Deficit and Government Funding

/ VIA has been consistently improving its financial situation, both commercially and operationally. In fact, over the last two years, VIA has required $30 million less in government funding for operations (before contributions to pension plans).

IN MILLIONS OF CANADIAN DOLLARS	2011	2010	2009
Government Funding and Asset Renewal Fund before Pension Plans	**216.8**	237.6	247.5
Employer Contributions to Pension Plans	**44.1**	23.9	13.8
TOTAL GOVERNMENT FUNDING	**260.9**	261.5	261.3

3. CAPITAL INVESTMENTS

Fixed assets (net of accumulated depreciation) amount to $1,152.1 million, up $186.8 million compared to the balance as at December 31, 2010 Capital investments for the quarter totaled $65.2 million, and $237.0 million for the year.

/ Investments of $37.3 million were made in major infrastructure projects, mostly on the CN Kingston subdivision of the Montreal-Toronto line. Work is done to add sections of a third track between Montreal and Toronto to minimize congestion. The total investment made in major infrastructure projects was $128.2 million for the year.

/ A total of $14.8 million was invested in major equipment projects, including $7.9 million for the F40 locomotive fleet rebuild project, and $3.2 million for the LRC car fleet rebuild project. For the year, a total of $69.6 million has been invested in major equipment projects.

/ An amount of $7.0 million was invested in station projects during the quarter, of which $4.0 million was for the revitalization of Toronto's Union Station. Investments made in stations total $16.6 million for the year, of which $6.8 million was for Toronto's Union Station.

/ Investments of $3.2 million were also made in Information Technology projects during the quarter, bringing the annual investments to $12.6 million for the year ended December 31.

4. CASH FLOW AND FINANCIAL POSITION

The Corporation's cash balance is $13.3 million as at December 31, 2011, down $63.6 million compared to December 31, 2010.

The decrease in cash position during the year is due to government funding received in December 2010 instead of January 2011 (balance of $51 million in deferred government funding as at December 31, 2010).

5. RISK ANALYSIS

RISK	TREND	CURRENT SITUATION
CAPITAL INVESTMENT PROJECTS Major delays in infrastructure or equipment projects, or an increase in project costs would adversely affect VIA's financial performance.	⬆	Issues concerning the production timelines of specific equipment projects have been identified and could delay the generation of benefits resulting from the completion of these projects. Management is monitoring the situation closely and is working on alternatives to accelerate the delivery of the equipment and minimize any delay.
PASSENGER REVENUES While passenger revenues increased in the first three quarters of the year, there was a decline in revenues and ridership in the fourth quarter.	⬆	VIA continues to implement initiatives to mitigate the impact of slow growth in passenger revenues. These include optimizing train services between Montreal, Ottawa and Toronto, and generating additional revenues form real estate projects and through information technology improvements that support revenue management initiatives.
OPERATING FUNDING VIA continues to face operational funding challenges.	➡	The Corporation is pursuing the development and the implementation of a range of initiatives to reduce its deficit by reducing costs and increasing revenues. Furthermore, VIA continues to work with Transport Canada to address the challenge of operating loss and develop sustainable funding solutions.
CAPITAL FUNDING VIA will need to continue investing in equipment, stations, maintenance systems, facilities and information technology after 2011, when the current investment program is completed.	➡	The Corporation is working with Transport Canada to address ongoing capital funding requirements, and to ensure that VIA has the capital funding it requires to deliver on its mandate.

⬆ INCREASING ➡ STABLE ⬇ DECREASING

RISK	TREND	CURRENT SITUATION
RETIREMENT OF LOCOMOTIVE ENGINEERS VIA is dependant on the specialized set of skills of the locomotive engineers who operate its trains. More than half of VIA's locomotive engineers could retire by the end of the year 2015, and if VIA were to experience a substantial turnover in its locomotive engineer group, its business could be adversely affected.	→	The Corporation launched a training program for new locomotive engineers in December 2010, with the first class scheduled to graduate in 2012. A second class started in October 2011 and two additional classes will start in 2012, all of which will graduate at the end of 2012.
FUEL COST FLUCTUATIONS Fuel is a major cost for passenger rail operations, and fuel costs could vary significantly from VIA's estimates due to the uncertainty and volatility of fuel prices.	→	VIA's proven hedging strategy adds certainty to future fuel costs and can delay the impact of fuel price fluctuations. Given that contracts used to hedge fuel prices are denominated in U.S. dollars, VIA also hedges against foreign exchange risks.
CROSSING INCIDENTS VIA trains operate through many protected and unprotected level road crossings where vehicles can cross and where incidents/accidents could occur.	↓	VIA has developed a crossing improvement (protection, fences) and closure program. The Corporation works actively with communities and owners of the land where there are crossings. The objectives of the program are to close crossings where possible and to increase public awareness about the potential dangers they represent.

↑ INCREASING → STABLE ↓ DECREASING

6. OUTLOOK

VIA remains committed to the goals set out in the Corporate Plan for 2011. Marketing strategies will continue to focus on maintaining and building on ridership gains achieved this year. The completion of Lean management initiatives and a focus on productivity throughout the organization will help to ensure continuous improvements in efficiency.

As some of the capital investment projects are completed in the coming months and in 2012, VIA will ensure that passenger rail delivers better value, to more Canadian travellers, while maintaining rigorous control over operating costs.

Management is monitoring the current market conditions closely and has developed a contingency plan which will be launched should uncertain economic conditions continue. The objective is to ensure approved funding levels are respected should passenger revenues be affected by the economic uncertainty.

The Canadian government is currently working on studies concerning rail travel, and any decision stemming from these studies could impact VIA's goals and strategies in years to come.

FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY STATEMENT

YEAR ENDED DECEMBER 31, 2011

Management of the Corporation is responsible for the preparation and fair presentation of the financial statements contained in the Annual Report. These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and necessarily include certain amounts that are based on management's best estimates and judgement. Financial information contained throughout the Annual Report is consistent with that in the financial statements. Management considers that the financial statements present fairly the financial position of the Corporation and its financial performance and its cash flows.

To fulfill its responsibility, the Corporation maintains systems of internal controls, policies and procedures to ensure the reliability of financial information and the safeguarding of assets. The internal control systems are subject to periodic reviews by Samson Bélair/Deloitte & Touche, LLP, as internal auditors. The external auditor, the Auditor General of Canada, has audited the Corporation's financial statements for the years ended December 31, 2011 and December 31, 2010, and his report indicates the scope of his audits and his opinion on the financial statements.

The Audit, Risk and Finance Committee of the Board of Directors, consisting of independent Directors, meets periodically with the internal and external auditors and with management, to review the scope of their audits and to assess reports on audit work performed. The financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit, Risk and Finance Committee.

Marc Laliberté President and Chief Executive Officer	**Robert St-Jean, CA** Chief Financial and Administration Officer

Montréal, Canada
March 13, 2012

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport, Infrastructure and Communities

Report on the Financial Statements

I have audited the accompanying financial statements of Via Rail Canada Inc., which comprise the statements of financial position as at 31 December 2011, 31 December 2010 and 1 January 2010, and the statements of operations and comprehensive income, statements of changes in shareholder's equity and statements of cash flows for the years ended 31 December 2011 and 31 December 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Via Rail Canada Inc. as at 31 December 2011, 31 December 2010 and 1 January 2010, and its financial performance and its cash flows for the years ended 31 December 2011 and 31 December 2010 in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied, after giving retrospective effect to the adoption of the new standards as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of Via Rail Canada Inc. that have come to my notice during my audits of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and regulations and the articles and by-laws of Via Rail Canada Inc.

Maurice Laplante, CA auditor
Assistant Auditor General
for the Auditor General of Canada

13 March 2012
Montréal, Canada

FINANCIAL STATEMENTS

Statement of Financial Position

As at	December 31, 2011	December 31, 2010	January 1, 2010
CURRENT ASSETS			
Cash and cash equivalents	**$ 13,253**	$ 76,829	$ 4,596
Accounts receivable, trade	**10,707**	7,988	7,581
Prepaids, advances on contracts and other receivables	**11,147**	14,414	10,467
Receivable from the Government of Canada	-	15,702	5,182
Derivative financial instruments (NOTE 20)	**2,161**	3,769	1,497
Materials (NOTE 8)	**21,287**	21,302	24,592
Asset Renewal Fund (NOTE 11)	**24,022**	15,295	25,295
	82,577	155,299	79,210
NON-CURRENT ASSETS			
Property, plant and equipment (NOTE 9)	**814,876**	729,932	673,433
Intangible assets (NOTE 10)	**337,182**	235,371	74,068
Asset Renewal Fund (NOTE 11)	**9,881**	25,645	23,120
Accrued benefit asset (NOTE 14)	**186,937**	159,081	152,655
Derivative financial instruments (NOTE 20)	**64**	880	1,578
	1,348,940	1,150,909	924,854
Total assets	**$ 1,431,517**	$ 1,306,208	$ 1,004,064
CURRENT LIABILITIES			
Accounts payable and accrued liabilities (NOTE 12)	**$ 103,841**	$ 135,952	$ 116,529
Provisions (NOTE 13)	**18,050**	16,342	13,718
Deferred government funding	**6,148**	51,000	-
Derivative financial instruments (NOTE 20)	**1,057**	996	6,699
Deferred revenues	**26,734**	25,546	24,129
	155,830	229,836	161,075
NON-CURRENT LIABILITIES			
Accrued benefit liability (NOTE 14)	**35,425**	33,055	31,930
Deferred corporate tax liabilities (NOTE 15)	-	404	-
Derivative financial instruments (NOTE 20)	**116**	205	354
Deferred investment tax credits	**566**	909	1,302
Other non-current liabilities	-	623	899
	36,107	35,196	34,485
DEFERRED CAPITAL FUNDING (NOTE 16)	**1,143,800**	965,546	745,951
SHAREHOLDER'S EQUITY			
Share capital (NOTE 17)	**9,300**	9,300	9,300
Retained earnings	**86,480**	66,330	53,253
	95,780	75,630	62,553
Total liabilities and shareholder's equity	**$ 1,431,517**	$ 1,306,208	$ 1,004,064

Commitments and Contingencies (Notes 18 and 23, respectively)

The notes are an integral part of the financial statements.

Approved on behalf of the Board,

Eric L. Stefanson, FCA
Director and Chairman
of the Audit, Risk and Finance Committee

Paul G. Smith
Director and Chairman of the Board

FINANCIAL STATEMENTS

Statement of Operations and Comprehensive Income

Year ended December 31 (in thousands of Canadian dollars)		2011		2010
REVENUES				
Passenger	**$**	**264,767**	$	257,714
Other		**17,797**		16,990
		282,564		274,704
EXPENSES				
Compensation and benefits		**226,859**		223,148
Train operations and fuel		**126,465**		118,101
Stations and property		**33,286**		33,905
Marketing and sales		**29,615**		29,271
Maintenance material		**32,513**		38,980
On-train product costs		**15,085**		14,735
Operating taxes		**6,865**		8,746
Professional services		**7,786**		6,339
Employee benefits (NOTE 14)		**25,757**		26,249
Amortization and losses on write-down and disposal of property, plant and equipment and intangible assets (NOTES 9 AND 10)		**49,662**		48,993
Unrealized net loss (gain) on derivative financial instruments		**2,396**		(7,426)
Realized (gain) loss on derivative financial instruments		**(6,270)**		6,244
Other		**24,639**		24,831
		574,658		572,116
OPERATING LOSS BEFORE FUNDING FROM THE GOVERNMENT OF CANADA AND CORPORATE TAXES		**292,094**		297,412
Operating funding from the Government of Canada		**260,865**		261,521
Amortization of deferred capital funding (NOTE 16)		**46,530**		49,015
Income before corporate taxes		**15,301**		13,124
Corporate tax (recovery) expense (NOTE 15)		**(4,849)**		47
NET INCOME AND COMPREHENSIVE INCOME FOR THE YEAR	**$**	**20,150**	$	13,077

The notes are an integral part of the financial statements.

Statement of changes in Shareholder's Equity

Year ended December 31 (in thousands of Canadian dollars)		2011		2010
BALANCE, BEGINNING OF YEAR	**$**	**75,630**	$	62,553
Net income and comprehensive income for the year		**20,150**		13,077
BALANCE, END OF YEAR	**$**	**95,780**	$	75,630

The notes are an integral part of the financial statements.

FINANCIAL STATEMENTS

Statement of Cash Flows

Year ended December 31 (IN THOUSANDS OF CANADIAN DOLLARS)	2011	2010
OPERATING ACTIVITIES		
Net income and comprehensive income for the year	**$ 20,150**	$ 13,077
Adjustments to determine net cash (used in) from operating activities:		
Amortization of property, plant and equipment and intangible assets	**48,333**	44,769
Losses on write-down and disposal of property, plant and equipment and intangible assets	**1,672**	4,617
Amortization of deferred investment tax credits	**(343)**	(393)
Amortization of deferred capital funding	**(46,530)**	(49,015)
Interest income	**(883)**	(496)
Deferred corporate taxes	**(404)**	404
Change in fair value of financial instruments (Asset renewal fund)	**(364)**	(810)
Unrealized net loss (gain) on derivative financial instruments	**2,396**	(7,426)
Net change in non-cash working capital items	**(44,597)**	38,746
Change in accrued benefit asset	**(27,856)**	(6,426)
Change in accrued benefit liability	**2,370**	1,125
Change in other non-current liabilities	**(623)**	(276)
Net cash (used in) provided by operating activities	**(46,679)**	37,896
FINANCING ACTIVITIES		
Capital funding	**224,784**	268,610
Change in capital funding receivable from the Government of Canada	**13,716**	3,254
Net cash provided by financing activities	**238,500**	271,864
INVESTING ACTIVITIES		
Acquisition of investments in the Asset Renewal Fund	**(270,959)**	(177,684)
Proceeds from sale and maturity of investments in the Asset Renewal Fund	**278,360**	185,969
Change in Capital accounts payable and accrued liabilities	**(26,921)**	20,880
Acquisition of property, plant and equipment and intangible assets	**(237,042)**	(268,608)
Interest received	**883**	496
Proceeds from disposal of property, plant and equipment and intangible assets	**282**	1,420
Net cash used in investing activities	**(255,397)**	(237,527)
CASH AND CASH EQUIVALENTS		
(Decrease) increase during the year	**(63,576)**	72,233
Balance, beginning of year	**76,829**	4,596
BALANCE, END OF YEAR	**$ 13,253**	$ 76,829
REPRESENTED BY:		
Cash	**$ 4,376**	$ 3,473
Short-term investments	**8,877**	73,356
	$ 13,253	$ 76,829

The notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

AS AT DECEMEBER 31, 2011

1. AUTHORITY AND OBJECTIVES

VIA Rail Canada Inc. is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. The Corporation was incorporated in 1977 in Canada, under the *Canada Business Corporations Act*. The corporate headquarters is located at 3 Place Ville-Marie, Montreal (Quebec). The Corporation's vision is to offer the best travel experience in Canada with a mission to work together to exceed customer expectations every time. The Corporation uses the roadway infrastructure of other railway companies and relies on them to control train operations.

The Corporation is not an agent of Her Majesty and is subject to income taxes.

The Corporation has one operating segment, passenger transportation and related services in Canada. The corporation's activities are considered seasonal since passenger traffic increases significantly during the summer and holiday periods resulting in an increase in revenue for these same periods.

These financial statements were approved and authorized for issue by the Board of Directors on March 13, 2012.

2. BASIS OF PREPARATION

A) STATEMENT OF COMPLIANCE

The Corporation adopted International Financial Reporting Standards (IFRS) in accordance with IFRS 1 – *First-time Adoption of International Financial Reporting Standards*. The first date at which IFRS were applied was January 1, 2010. In accordance with IFRS, the Corporation has:

/ provided comparative financial information;

/ applied the same accounting policies throughout all years presented;

/ retrospectively applied all effective IFRS standards as of December 31, 2009, as required; and

/ applied certain optional exemptions and certain mandatory exceptions as applicable for first time IFRS adopters.

The Corporation's financial statements were previously prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). Canadian GAAP differs in some areas from IFRS. Note 3 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, earnings and comprehensive income along with line-by-line reconciliations of the statement of financial position as at December 31, 2010 and January 1, 2010, and the statement of operations and comprehensive income for the year ended December 31, 2010.

B) FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand in the Corporate financial statements and rounded to the nearest million in the Notes to the financial statements.

3. IMPACT OF FIRST-TIME ADOPTION OF IFRS

As required by IFRS 1 - *First-time adoption of International Financial Reporting Standards*, the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under Canadian GAAP recorded in retained earnings unless certain exemptions are applied. This note sets out the principles adopted by the Corporation in the preparation of its IFRS opening statement of financial position as at 1 January 2010. It also presents divergences with Canadian GAAP previously adopted by the Corporation and their quantified impact on the 2010 opening statement of financial position, 2010 net result and the 2010 closing statement of financial position.

In preparing its opening statement of financial position, the Corporation elected to apply the following exemptions offered by IFRS 1:

i) Employee benefits (IAS19)

The Corporation has applied the exemption allowing for the recognition of all cumulative actuarial gains and losses at the date of transition in the opening retained earnings for all employee benefit plans. The Corporation will however continue to use the corridor approach for actuarial gains and losses occurring after the transition. The Corporation will disclose the amounts required by the IFRS as the amounts are determined for each accounting year prospectively from the date of transition to IFRS. The Corporation has also applied the exemption allowing for prospective disclosure of the requirements under IAS 19 paragraph 120A (p).

ii) Business combinations (IFRS 3)

The Corporation has elected not to restate business combinations performed prior to January 1, 2010 and applies IFRS 3 as from this date.

iii) Designation of previously recognized financial instruments (IAS 39)

The Corporation has reclassified its short-term investments included in the cash and cash equivalent and in the asset renewal fund, other than the MAV notes, as available for sale at the date of transition. These reclassifications had no impact on measurement since these investments were already measured at fair value under Canadian GAAP and continue to be measured at fair value under IFRS.

The adoption of the IFRS has resulted in significant changes to the statement of financial position of the Corporation as described below and the financial statements of the Keewatin Railway Company (KRC) are no longer consolidated into the Corporation's financial statements with IFRS (see Note 3 a - Consolidation of KRC below).

3. IMPACT OF FIRST-TIME ADOPTION OF IFRS (CONT'D)

The Corporation has prepared the following reconciliations:

Reconciliation of the opening statement of financial position as at January 1, 2010:

[illegible]	Dec. 31, 2009 Canadian GAAP	KRC (Note a)	IFRS Adjustments	Reclassifications	January 1, 2010 IFRS	Note
Cash and cash equivalents	4.8	(0.2)	-	-	**4.6**	
Accounts Receivable, trade	7.7	(0.1)	-	-	**7.6**	
Prepaids, advances on contract and other receivables	10.6	(0.2)	-	-	**10.4**	
Receivable from the Government of Canada	6.8	(1.6)	-	-	**5.2**	
Derivative financial instruments	1.5	-	-	-	**1.5**	
Materials	24.6	-	-	-	**24.6**	
Asset Renewal Fund	25.3	-	-	-	**25.3**	
Deferred corporate tax asset	2.8	-	(2.8)	-	-	h
Total Current Assets	**84.1**	**(2.1)**	**(2.8)**	**-**	**79.2**	
Property, plant and equipment	523.9	(8.7)	219.8	(61.6)	**673.4**	b
Intangible assets	9.5	-	3.0	61.6	**74.1**	c
Asset Renewal Fund	23.1	-	-	-	**23.1**	
Accrued benefit asset	354.8	-	(202.1)	-	**152.7**	d
Derivative financial instruments	1.6	-	-	-	**1.6**	
Total Non-current Assets	**912.9**	**(8.7)**	**20.7**	**-**	**924.9**	
Total Assets	**997.0**	**(10.8)**	**17.9**	**-**	**1,004.1**	

[illegible]	Dec. 31, 2009 Canadian GAAP	KRC (Note a)	IFRS Adjustments	Reclassifications	January 1, 2010 IFRS	Note
Accounts Payable and accrued liabilities	132.3	(2.0)	(0.6)	(13.2)	**116.5**	e
Provisions	-	-	1.0	12.7	**13.7**	e
Derivative financial instruments	6.7	-	-	-	**6.7**	
Deferred revenues	12.0	-	12.1	-	**24.1**	f
Total Current Liabilities	**151.0**	**(2.0)**	**12.5**	**(0.5)**	**161.0**	
Accrued benefit liability	27.2	-	4.3	0.5	**32.0**	d
Deferred corporate tax liabilities	40.5	-	(40.5)	-	-	h
Derivative financial instruments	0.4	-	-	-	**0.4**	
Deferred investment tax credits	1.3	-	-	-	**1.3**	
Other non-current liabilities	1.5	(0.6)	-	-	**0.9**	
Total Non-current Liabilities	**70.9**	**(0.6)**	**(36.2)**	**0.5**	**34.6**	
Deferred capital funding	**541.1**	**(8.0)**	**212.9**	-	**746.0**	g
Share Capital	9.3	-	-	-	**9.3**	
Retained earnings	224.7	(0.2)	(171.3)	-	**53.2**	
Total Shareholder's equity	**234.0**	**(0.2)**	**(171.3)**	-	**62.5**	
Total Liabilities and Shareholder's Equity	**997.0**	**(10.8)**	**17.9**	-	**1,004.1**	

3. IMPACT OF FIRST-TIME ADOPTION OF IFRS (CONT'D)

Reconciliation of equity as at January 1, 2010:

[illegible]		Note
Equity – Canadian GAAP as at January 1, 2010	**234.0**	
Consolidation - KRC	(0.2)	a
Property, plant and equipment	219.8	b
Intangible assets	3.0	c
Employee Benefits	(206.4)	d
Provision	(0.4)	e
Deferred Revenue – VIA Préférence	(12.1)	f
Deferred capital funding	(212.9)	g
Deferred corporate tax	37.7	h
Equity – IFRS as at January 1, 2010	**62.5**	

Reconciliation of the opening statement of financial position as at December 31, 2010:

[illegible]	Dec. 31, 2010 Canadian GAAP	KRC (Note a)	IFRS Adjustments	Reclassifications	Dec. 31, 2010 IFRS	Note
Cash and cash equivalents	77.1	(0.3)	-	-	**76.8**	
Accounts Receivable, trade	8.1	(0.1)	-	-	**8.0**	
Prepaids, advances on contract and other receivables	14.5	(0.1)	-	-	**14.4**	
Receivable from the Government of Canada	17.1	(1.4)	-	-	**15.7**	
Derivative financial instruments	3.8	-	-	-	**3.8**	
Materials	21.3	-	-	-	**21.3**	
Asset Renewal Fund	15.3	-	-	-	**15.3**	
Deferred corporate tax asset	12.2	-	(12.2)	-	-	h
Total Current Assets	**169.4**	**(1.9)**	**(12.2)**	-	**155.3**	
Property, plant and equipment	725.6	(9.5)	224.2	(210.4)	**729.9**	b
Intangible assets	17.4	-	7.6	210.4	**235.4**	c
Asset Renewal Fund	25.6	-	-	-	**25.6**	
Accrued benefit asset	374.9	-	(215.8)	-	**159.1**	d
Derivative financial instruments	0.9	-	-	-	**0.9**	
Total Non-current Assets	**1,144.4**	**(9.5)**	**16.0**	-	**1,150.9**	
Total Assets	**1,313.8**	**(11.4)**	**3.8**	-	**1,306.2**	

	Dec. 31, 2010 Canadian GAAP	KRC (Note a)	IFRS Adjustments	Reclassifications	Dec. 31, 2010 IFRS	Note
Accounts Payable and accrued liabilities	154.7	(1.8)	(0.6)	(16.3)	**136.0**	e
Provisions	-	-	0.4	15.9	**16.3**	e
Deferred government funding	51.0	-	-	-	**51.0**	
Derivative financial instruments	1.0	-	-	-	**1.0**	
Deferred revenues	12.9	-	12.6	-	**25.5**	f
Total Current Liabilities	**219.6**	**(1.8)**	**12.4**	**(0.4)**	**229.8**	
Accrued benefit liability	27.3	-	5.4	0.4	**33.1**	d
Deferred corporate tax liabilities	55.0	-	(54.6)	-	**0.4**	h
Derivative financial instruments	0.2	-	-	-	**0.2**	
Deferred investment tax credits	0.9	-	-	-	**0.9**	
Other non-current liabilities	1.1	(0.5)	-	-	**0.6**	
Total Non-current Liabilities	**84.5**	**(0.5)**	**(49.2)**	**0.4**	**35.2**	
Deferred capital funding	**751.9**	**(9.0)**	**220.7**	**2.0**	**965.6**	g
Share Capital	9.3	-	-	-	**9.3**	
Retained earnings	248.5	(0.1)	(180.1)	(2.0)	**66.3**	
Total Shareholder's equity	**257.8**	**(0.1)**	**(180.1)**	**(2.0)**	**75.6**	
Total Liabilities and Shareholder's Equity	**1,313.8**	**(11.4)**	**3.8**	**-**	**1,306.2**	

Reconciliation of equity as at December 31, 2010:

		Note
Equity – Canadian GAAP as at December 31, 2010	**257.8**	
Consolidation - KRC	(0.1)	a
Property, plant and equipment	224.2	b
Intangible assets	7.6	c
Employee Benefits	(221.2)	d
Provision	0.2	e
Deferred Revenue – VIA Préférence	(12.6)	f
Deferred capital funding – IFRS Adj.	(220.7)	g
Deferred capital funding – Funding for land	(2.0)	
Deferred corporate tax	42.4	h
Equity – IFRS as at December 31, 2010	**75.6**	

3. IMPACT OF FIRST-TIME ADOPTION OF IFRS (CONT'D)

Reconciliation of statement of operations and comprehensive income for the year ended December 31, 2010:

[illegible]	Dec. 31, 2010 Canadian GAAP	KRC (Note a)	IFRS Adjustments	Dec. 31, 2010 IFRS	Note
Revenues					
Passenger	258.3	(0.1)	(0.5)	**257.7**	
Other	19.6	(2.6)	-	**17.0**	
	277.9	**(2.7)**	**(0.5)**	**274.7**	
Expenses					
Compensation and benefits	224.2	(1.1)	-	**223.1**	
Train operations and fuel	118.5	(0.4)	-	**118.1**	
Stations and property	34.3	(0.4)	-	**33.9**	
Marketing and sales	29.3	-	-	**29.3**	
Maintenance material	39.1	(0.1)	-	**39.0**	
On-train product costs	14.7	-	-	**14.7**	
Operating taxes	8.9	(0.1)	-	**8.8**	
Professional Services	6.3	-	-	**6.3**	
Employee benefits	11.5	-	14.7	**26.2**	d
Amortization and losses on write-down and disposal of property, plant and equipment and intangible assets	58.3	(0.3)	(9.0)	**49.0**	b/c
Unrealized net gain on derivative financial instruments	(7.4)	-	-	**(7.4)**	
Realized loss on derivative financial instruments	6.2	-	-	**6.2**	
Other	26.0	(0.7)	(0.4)	**24.9**	
	569.9	**(3.1)**	**5.3**	**572.1**	
Operating loss before funding from the Government of Canada and corporate taxes	**292.0**	**(0.4)**	**5.8**	**297.4**	
Operating funding from the Government of Canada	261.5	-	-	**261.5**	
Amortization of deferred capital funding	57.1	(0.3)	(7.8)	**49.0**	g
Income (loss) before corporate taxes	**26.6**	**0.1**	**(13.6)**	**13.1**	
Corporate tax expense	4.8	-	(4.8)	**-**	h
Net Income and comprehensive income for the year	**21.8**	**0.1**	**(8.8)**	**13.1**	

A) CONSOLIDATION OF KRC

Under Canadian GAAP the Keewatin Railway Company (KRC) was designated as a variable interest entity (VIE) and therefore the financial statements of the KRC were consolidated into the Corporation's financial statements. Under IFRS, the KRC financial statements are no longer consolidated in the Corporation's financial statements since the IFRS standards are based on control criteria rather than the concept of a VIE. The Corporation has concluded under IFRS that it does not control the operations of the KRC therefore should not consolidate their financial statements under IFRS.

B) PROPERTY, PLANT AND EQUIPMENT

At the date of transition to IFRS, the Corporation has chosen to follow the depreciated cost model for its property, plant and equipment and therefore did not elect to use the fair value as the deemed cost.

Under IFRS the amortization of property, plant and equipment is required to be calculated separately for significant components of property, plant and equipment items if these components have significantly different useful lives. This requirement led to the restatement of the property, plant and equipment in the opening IFRS statement of financial position as at January 1, 2010. The result of this restatement is a significant increase in the net carrying amount of rolling stock, building and rail infrastructure. The accumulated amortization of assets in the rolling stock, maintenance buildings, stations and facilities as well as rail infrastructure categories was reduced as a result of the recognition of various asset components and the related adjustments of their useful lives.

In the process of reclassifying its asset into components, the Corporation also reclassified certain assets to other more appropriate categories based on the nature of these assets. An example of this would be the reclassification of rail infrastructure used by the maintenance centres from the maintenance centre category to the rail infrastructure category.

Reconciliation of Property, Plant and equipment at transition date:

[illegible]	January 1, 2010
Property, plant and equipment - CND GAAP	**523.9**
KRC	**(8.7)**
Reclassification to intangible	**(61.6)**
Net change in original cost from capitalization and decapitalization of certain assets	**10.5**
Reduction of accumulated amortization	**209.3**
Property, plant and equipment - IFRS	**673.4**

Reconciliation of Property, Plant and equipment as at December 31, 2010:

[illegible]	Dec. 31, 2010
Property, plant and equipment - CND GAAP	**725.6**
KRC	**(9.5)**
Reclassification to intangible	**(210.4)**
Net change in original cost from capitalization and decapitalization of certain assets	**12.8**
Reduction of accumulated amortization	**211.4**
Property, plant and equipment - IFRS	**729.9**

3. IMPACT OF FIRST-TIME ADOPTION OF IFRS (CONT'D)

C) INTANGIBLE ASSETS

At the date of transition to IFRS, the Corporation has chosen to follow the depreciated cost model for its intangible assets and therefore did not elect to use the fair value as the deemed cost.

The Corporation has also established that investments in rail infrastructure that are owned by other operating railways would be more appropriately classified as intangible assets since these investments result in enhanced passenger train operations but cannot be considered as a physical assets for the Corporation since the ownership remains with the other operating railways.

These intangible assets are being amortized over their estimated useful lives of approximately 38 years instead of the term of the train service agreements with the other operating railways which are significantly shorter.

Reconciliation of Intangible Assets at transition date:

	January 1, 2010
Intangible Assets - CND GAAP	**9.5**
Reclassification from property, plant and equipment	**61.6**
Reduction of accumulated amortization	**3.0**
Intangible Assets - IFRS	**74.1**

Reconciliation of Intangible Assets as at December 31, 2010:

	December 31, 2010
Intangible Assets - CND GAAP	**17.4**
Reclassification from property, plant and equipment	**210.4**
Reduction of accumulated amortization	**7.6**
Intangible Assets - IFRS	**235.4**

D) EMPLOYEE BENEFITS

i) Accrued benefit Assets (Pension Plans)

The Corporation has applied the employee benefit exemption and has recognized, at the transition date, the unrecognized actuarial losses under Canadian GAAP despite the fact that VIA will continue to apply the corridor method on a prospective basis under IFRS. The transition asset as well as past service costs were also recorded in the opening retained earnings.

	January 1, 2010	December 31, 2010
Unamortized actuarial losses	321.5	467.9
Unamortized transition asset	(120.9)	(88.6)
Unamortized past service costs	1.5	1.0
Subtotal	**202.1**	**380.3**
Unamortized actuarial losses under IFRS	-	(164.5)
IFRS transition adjustment	**202.1**	**215.8**

ii) Accrued benefit liability

As a result of the application of the exemption, the Corporation has increased its liability upon recognition of the transition liability, past service cost and actuarial losses at the date of transition.

[illegible]	January 1, 2010	December 31, 2010
Unamortized transition obligation	2.6	2.3
Unamortized past service costs	0.2	1.0
Unamortized actuarial losses	1.5	4.2
Subtotal	**4.3**	**7.5**
Unamortized past service costs under IFRS	-	(0.5)
Unamortized actuarial losses under IFRS	-	(1.6)
IFRS transition adjustment	**4.3**	**5.4**

The short-term portion of the network restructuring obligation of $0.5 million at January 1, 2010 (December 31, 2010: $0.4 million) has been reclassified from Account payable and accrued liabilities to Accrued benefit liability on the statement of financial position.

E) PROVISIONS

IFRS requires that provisions be presented separately on the face of the statement of financial position. As such, at January 1, 2010, $12.7 million (December 31, 2010: $15.9 million) relating to provisions for environmental and third party litigation have been reclassified from Account payable and accrued liabilities to Provisions on the statement of financial position. The Corporation has also recorded provisions for ticket refunds and late train credits of $1.0 million at January 1, 2010 (December 31, 2010: $0.4 million) as Provisions on the statement of financial position.

F) DEFERRED REVENUE – VIA PRÉFÉRENCE

IFRIC 13 – *Customer Loyalty Programs* provides guidance on the accounting treatment for reward programs such as the VIA Préférence Program which allows customers to accumulate points that can be exchanged against train tickets. Under Canadian GAAP, the Corporation had recorded the incremental costs related to train tickets issued to customers using their award points.

Under IFRS the fair value of points accumulated on the train travel is recognized as deferred revenue. The fair value of each point has been determined as the value for which the point could be sold separately based on the average yield, class of travel and region of travel. A provision of $0.6 million under Canadian GAAP was reversed and deferred revenue of $12.1 million (December 31, 2010: $12.6 million) has been recorded at transition date.

G) DEFERRED CAPITAL FUNDING

The deferred capital funding is adjusted for an amount equal to the adjustment made to the amortization of Property, plant and equipment and intangible assets that were financed by capital funding from the Government of Canada.

H) DEFERRED CORPORATE TAX

The accounting treatment of deferred corporate tax using the IFRS is similar to the treatment under Canadian GAAP. The decrease in the deferred corporate tax amount is mainly caused by the reduction of the Accrued benefit asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The significant accounting policies followed by the Corporation are summarized as follows:

A) FUNDING FROM THE GOVERNMENT OF CANADA

Operating funding, which pertains to services, activities and other undertakings of the Corporation for the management and operation of railway passenger services in Canada, is recorded as a reduction of the operating loss (See Note 7 for reconciliation). The funding is determined on the basis of operating expenses less commercial revenues excluding unrealized gains and losses on financial instruments, employee benefits and non-cash transactions relating to property, plant and equipment, intangible assets and deferred corporate taxes, and is based on the operating budget approved by the Government of Canada for each year.

Funding for depreciable property, plant and equipment and intangible assets is recorded as deferred capital funding on the statement of financial position and is amortized from the acquisition date on the same basis and over the same periods as the related property, plant and equipment and intangible assets. Upon disposal of the funded depreciable property, plant and equipment and intangible assets, the Corporation recognizes into net income all remaining deferred capital funding related to the relevant assets.

Funding for non-depreciable property, plant and equipment is recorded as deferred capital funding on the statement of financial position and is amortized from the acquisition date on the same basis and over the same periods as the related property, plant and equipment.

B) CASH EQUIVALENTS

Cash equivalents investments include bankers' discount notes and bankers' acceptances which may be liquidated promptly and have short-term maturities.

C) ASSET RENEWAL FUND

Asset Renewal Fund investments include Provincial treasury bills and/or promissory notes and bankers' acceptances which may be liquidated promptly and have original maturities of three months or less. It also includes Master Asset Vehicle (MAV) notes which may not be liquidated in the near future and have legal maturities from 2013 to 2056. Changes in fair value are recorded in other revenues.

D) REVENUE RECOGNITION

The consideration received from the sale of tickets is allocated between the points attributed under the loyalty programs (VIA Préférence) and the passenger transportation service based on their relative fair values. The deferred revenue related to the loyalty program points are recorded as revenue based on the number of points that have been redeemed in exchange for train tickets, relative to the total number of points that are expected to be redeemed in exchange for train tickets. The revenue is recorded as deferred revenue until the transportation has been provided or in the case of the points when these are redeemed for train tickets. Deferred revenue is also recorded as revenue when it is no longer considered probable that the related loyalty program points will be redeemed. Other revenues that include revenues from third parties and investment income are recorded as they are earned. The change in fair value of the financial instruments held for trading other than a derivative financial instrument is recorded in other revenues.

E) FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the end of the reporting period. Gains and losses resulting from the changes in exchange rates are reflected in the Statement of Operations and Comprehensive Income.

Non-monetary statement of financial position items as well as foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions.

F) MATERIALS

Materials, consisting primarily of items used for the maintenance of rolling stock, are valued at the lower of weighted average cost and net realizable value.

G) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at the acquisition or manufacturing cost, less accumulated amortization and any accumulated impairment losses. When major components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment and are amortized over their respective useful lives.

Maintenance and repair costs are recognized as follows:

i) Rolling stock:

Maintenance expenses incurred during the useful life of equipment (regular maintenance activities to maintain the asset in a good condition) are recorded as operating expenses.

The cost of periodic major overhaul programs are capitalized as a separate component and amortized over their useful lives.

ii) Fixed installations:

Maintenance and repair expenses (technical inspections, maintenance contracts, etc.) are recorded as operating expenses.

The costs of periodic major building repair programs are capitalized as a separate component amortized over its expected useful life.

Retired property, plant and equipment are written down to their estimated recoverable amount.

Amortization of property, plant and equipment is calculated on a straight-line basis, from the date they are available for use, at rates sufficient to amortize the cost of property, plant and equipment, less their residual value, over their estimated useful lives except for leases of buildings and stations where the amortization period is the shorter of the lease term or its estimated useful life. The estimated useful lives are as follows:

	Years
Rolling stock	**10 to 50**
Maintenance buildings	**15 to 50**
Stations and facilities	**10 to 50**
Owned infrastructure	**10 to 50**
Leasehold improvements	**10 to 40**
Machinery and equipment	**5 to 15**
Computer hardware	**3**
Other property, plant and equipment	**15**

The estimated useful life, amortization method and residual value are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. No amortization is provided for projects in progress and retired property, plant and equipment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

H) INTANGIBLE ASSETS

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

For internally-generated intangible assets, the expenditure on research activities is recognized as an expense in the year in which it is incurred and the development expense from the development phase of an internal project is recognized if, and only if, all of the following have been demonstrated:

/ the technical feasibility of completing the intangible asset so that it will be available for use or sale;

/ the intention to complete the intangible asset and use or sell it;

/ the ability to use or sell the intangible asset;

/ how the intangible asset will generate probable future economic benefits;

/ the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

/ the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to net income in the year in which it is incurred.

The Corporation's intangible assets have a finite useful life and are amortized over their useful life according to the straight-line method over the following years:

	Years
Internally generated software	**3**
Rights of access to rail infrastructure	**38**
Other Intangible assets	**20 to 25**

I) IMPAIRMENT

In accordance with IAS 36, "Impairment of Assets", the Corporation reviews at each statement of financial position date whether there is any indication (obsolescence, physical deterioration, significant changes in the method of utilisation, performances falling short of forecasts, decline in revenues, other external indicators) of impairment of tangible and intangible assets. If such an indication exists, the recoverable value of the asset is estimated in order to determine the amount, if any, of the impairment. The recoverable value is the higher of the following values: the fair value reduced by selling costs and value in use. The value in use is determined using discounted cash flow assumptions established by management.

When it is not possible to estimate the recoverable value for an individual asset, this asset is grouped together with other assets which form cash generating unit (CGU) and the Corporation measures the recoverable amount of the CGU.

When the recoverable value of an asset is lower than its carrying value, an impairment charge is recognized.

J) PROVISIONS

Provisions including provisions for environmental issues, legal litigation, travel credit, ticket refunds and restructuring are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that the Corporation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A restructuring provision is recognized when the Corporation has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures, mainly severance costs, arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity. Restructuring costs presented in the Statement of Operations and Comprehensive Income primarily consist of employee departure costs.

The environmental provision includes estimated costs to meet Government standards and regulations when such costs can be reasonably estimated. Estimates of the anticipated future costs for remediation work are based on the Corporation's prior experience.

K) CORPORATE TAXES

The Corporation utilizes the asset and liability method of accounting for corporate taxes under which deferred corporate tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amount and the tax basis of assets and liabilities. Deferred corporate tax assets and liabilities are measured using enacted or substantively enacted tax rates that are expected to apply for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred corporate tax assets and liabilities of a change in tax rates is recognized in earnings in the year that includes the enactment date. Deferred corporate tax assets are recognized to the extent that realization is considered probable.

L) INVESTMENT TAX CREDITS

Investment tax credits are recognized when qualifying expenditures have been made, provided there is reasonable assurance that the credits will be realized. They are amortized over the estimated useful lives of the related property, plant and equipment. The amortization of deferred investment tax credits is recorded as a reduction of the amortization of property, plant and equipment.

M) EMPLOYEE BENEFITS

i) Post-employment benefits

The Corporation accrues obligations under its post-employment benefit plans.

Post-employment benefits include defined benefit pension plans as well as post-retirement medical, dental and life insurance benefits.

The Corporation's obligations for the defined benefit pension plans is actuarially determined using the projected unit credit method and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees.

The cost of plan amendments resulting in past service cost is expensed in the year of the amendment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

For the pension plans, the excess of the accumulated net actuarial gain or loss over 10 per cent of the greater of the accumulated benefit obligation and the fair value of plan assets is amortized on a straight-line basis over the average remaining service lives of the active employee groups which is, in most cases, estimated to be 12 years (December 31, 2010: 12 years; January 1, 2010: 12 years).

The Corporation's obligations for the post-employment benefit plans, other than pension plans, are calculated using the projected unit credit method. This method incorporates management's best estimate of cost escalation as well as demographic and other financial assumptions.

ii) Employment benefits other than post-employment benefits

The Corporation provides employment benefits other than post-employment benefits as follows:

/ Compensation and short-term employee benefits include the annual salary, performance bonuses, paid vacations not included in the annual salary, short-term sick leave, health, dental and life insurance benefits. These benefits are measured on an undiscounted basis and are expensed as the related service is provided.

/ Long-term employee benefits include workers' compensation benefits as well as long-term disability benefits and continuation of benefit coverage for employees on long-term disability. The actuarial obligation for workers' compensation benefits is calculated on an event driven basis. The method involves dividing the obligation into two distinct components: awarded pensions and future awards. The actuarial obligation for awarded pensions is the actuarial present value of all future projected payments for the award determined as at the valuation date. The actuarial obligation for future awards is the discounted value of expected cash flow for awards yet to be made. The Corporation is self-insured for its workers' compensation benefits. The actuarial obligation for other long-term disability benefits and continuation of benefit coverage for employees on long-term disability is determined using the projected unit credit method. This method incorporates management's best estimate of cost escalation as well as demographic and other financial assumptions. Any actuarial gains and losses and other changes in the Corporation's obligations are recognized in net income in the year in which they arise.

/ Termination benefits include benefits that are payable when an employment contract is terminated before the normal retirement date. They are recognized as an expense when the Corporation is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

N) FINANCIAL INSTRUMENTS

Financial assets and financial liabilities, including derivative financial instruments, are initially measured at fair value at the date they are originated. Subsequent to initial recognition, financial assets and financial liabilities are measured based on their classification: fair value through profit and loss, loans and receivables, available for sale or other financial liabilities. The Corporation derecognized a financial asset or liability when the contractual rights or obligation to the cash flows from the asset or liability expires.

i) Financial assets and liabilities at fair value through profit and loss (FVTPL)

Financial instruments are classified as FVTPL when they are principally acquired or incurred for the purpose of selling and repurchasing in the short-term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of short-term profit taking or derivatives not designated for hedge accounting. A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition.

The Corporation has classified cash, bank balances and derivative financial instruments as FVTPL. Instruments in MAV notes that include embedded derivatives have been designated as FVTPL.

Financial assets and financial liabilities recorded at FVTPL are measured at fair value with changes in those fair values recognized in net income. Transaction costs are expensed as incurred. Regular-way purchases or sales of financial assets are accounted for at settlement-date.

ii) Loans and receivables (L&R)

The L&R classification includes trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market. Assets are measured initially at fair value and then at amortized cost, using the effective interest rate method, less any impairment. The fair values of loans and receivables are estimated on the basis of the present value of the expected cash flows. Where the time value of money is not material due to their short-term nature, accounts receivable are carried at the original invoice amount less allowance for doubtful receivables.

iii) Available-for-sale (AFS)

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the statement of financial position date. Short term investments and investments in the Asset Renewal Fund not designated as FVTPL have been classified as available for sale. AFS financial assets are recognized at fair value in subsequent years to the extent that this can be reliably measured. Fluctuations in fair value between statement of financial position dates are recognized in other comprehensive income.

iv) Other financial liabilities

Other financial liabilities represent liabilities that are not classified as FVTPL. They are initially measured at fair value, net of transaction costs and subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. Where the time value of money is not material due to their short-term nature, accounts payable are carried at the original invoice amount.

v) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the assets have been affected.

An impairment loss is recognized in net income and calculated as the difference between its carrying amount and the present value of the estimated future cash flows.

When a subsequent event such as a change in the estimates used to determine the recoverable amount, causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net income.

However, any subsequent recovery in the fair value of an impaired available-for-sale investment is recognized in other comprehensive income.

O) DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments such as swaps and certain forward foreign exchange contracts are utilized by the Corporation in the management of its exposure to changes in fuel prices and the value of the U.S. dollar of at least 50 per cent and up to 80 per cent of its consumption of fuel. The Corporation does not enter into derivative financial instruments for trading or speculative purposes. The Corporation does not currently apply hedge accounting on these derivative financial instruments.

Forward foreign exchange contracts are also utilized by the Corporation in the management of its exposure to the changes in value of the U.S dollar related to the purchase of materials from the U.S. as part of a major capital project to refurbish some of its locomotive fleet.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The Corporation's derivative financial instruments are classified as FVTPL. Changes in the fair value of derivative financial instruments are recorded in unrealized loss (gain) on derivative financial instruments.

Derivative financial instruments with a positive fair value are reported as derivative financial instrument assets and derivatives with a negative fair value are reported as derivative financial instruments liabilities.

P) NON-MONETARY TRANSACTIONS

Non-monetary transactions are recorded at the estimated fair value of the goods or services received. When the fair value of the goods and services received cannot be measured reliably, the transactions are recorded at the estimated fair value of the goods or services given. Revenues from non-monetary transactions are recognized when the related services are rendered. Expenses resulting from non-monetary transactions are recognized during the year when goods or services are provided by third parties.

5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future years. These estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

A) USEFUL LIVES OF DEPRECIABLE ASSETS

Management reviews the useful lives of depreciable assets annually. As at December 31, 2011 management assesses that the useful lives represent the expected utility of the assets to the Corporation.

B) *VIA PRÉFÉRENCE* PROGRAM

The "*VIA Préférence*" program allows members to acquire "award points" as they travel on the train. These award points entitle members to free travel on our trains. In determining the fair value of the award points, the Corporation takes into consideration the probability of the awards being converted into tickets. The estimated probabilities are based on historical information on point redemption and may not reflect the actual redemption rate in the future. As such, the amount allocated between the transportation service and the award points may have been significantly different if different probability estimates had been used.

C) FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation uses valuation techniques in measuring the fair value of its Master Asset Vehicle (MAV), where active market quotes are not available. Details of the assumptions used are given in the notes regarding the Asset Renewal fund (see Note 11). In applying the valuation techniques, management makes maximum use of market inputs, and uses estimates and assumptions that are consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

D) DEFINED BENEFIT LIABILITY

Measurement of pension obligation is based on the projected unit credit method prescribed by IAS 19 for defined benefit pension plans. The measurement of pension provisions within the statement of financial position is based on a number of assumptions.

They include, in particular, assumptions about long-term salary and average life expectancy. The assumptions on salary reflect expected long-term growth in earnings whereas assumptions on average life expectancy are based on recognized mortality tables.

The interest rate used for discounting future payment obligations is the market rate for high quality corporate bonds with a comparable time to maturity. The expected long-term rate of return on existing plan assets is also determined based on the fund structure, taking expected return and volatility of each asset class into account.

Changes in estimates and assumptions from year to year and deviations from actual annual effects are reflected in actuarial gains/losses and are, if their cumulative amount exceeds 10 per cent of the higher of obligation and plan assets, amortized pro rata via the income statement over the average remaining years of service of active members.

The 10 per cent corridor rule helps to prevent large short term fluctuations in the statement of financial position and the income statement from year to year.

E) CORPORATE TAXES

Management uses judgment and estimates in determining the appropriate rates and amounts in recording deferred income taxes, giving consideration to timing and probability of realization. Actual taxes could significantly vary from these estimates as a result of a variety of factors including future events, changes in income tax law or the outcome of reviews by tax authorities and related appeals. The resolution of these uncertainties and the associated final taxes may result in adjustments to the Corporation's deferred and current tax assets and liabilities.

6. FUTURE ACCOUNTING CHANGES

IFRS 9 - *Financial Instruments* - deals with classification and measurement standards for financial assets and liabilities. This standard is applicable for annual periods beginning on or after January 1, 2015.

IAS 12 - *Income taxes*- was amended in December 2010 to provide an exception to the general principle in IAS 12 that the measurement of deferred tax assets and liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of the asset. The amendments to IAS 12 are effective for annual periods beginning on or after January 1, 2012.

IAS 19 - *Employee Benefits*- was amended in June 2011 to eliminate the option to defer the recognition of gains and losses, to amend the presentation of changes in the defined benefit obligation and plan assets in other comprehensive income as well as to improve disclosure about the risks arising from defined benefit plans. These amendments are effective for annual periods beginning on or after January 1, 2013.

IFRS 13 - *Fair Value Measurement*- defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRS that require or permit fair value measurements or disclosures about fair value measurement. This standard will become effective for annual periods beginning on or after January 1, 2013.

IAS 1 - *Presentation of financial statements* - was amended in June 2011 to retain the "one or two statement" approach at the option of the entity and only revise the way other comprehensive income is presented: requiring separate subtotals for those elements which may be "recycled" (e.g. cash-flow hedging, foreign currency translation), and those elements that will not (e.g. fair value through other comprehensive income items under IFRS 9). These amendments will become effective for annual periods beginning on or after July 1, 2012.

The Corporation is in the process of evaluating the impact of each of these new or modified standards.

7. RECONCILIATION OF NET INCOME AND COMPREHENSIVE INCOME TO GOVERNMENT FUNDING BASIS

The Corporation receives its funding from the Government of Canada based primarily on cash flow requirements. Items recognized in the Statement of Operations and Comprehensive Income in one year may be funded by the Government of Canada in different years. Accordingly, the Corporation has different net results of operations for the year on a government funding basis than on a IFRS basis. These differences are outlined below:

[illegible]	Dec. 31, 2011	Dec. 31, 2010
Net income and comprehensive income for the year	**20.2**	13.1
Items not requiring (not providing) operating funds:		
Amortization of property, plant and equipment and intangible assets	**48.3**	44.8
Losses on write-down and disposal of property, plant and equipment and intangible assets	**1.7**	4.6
Amortization of deferred capital funding	**(46.5)**	(49.0)
Employee benefits to be funded in subsequent years	**(25.5)**	(5.2)
Deferred corporate taxes expense	**(0.4)**	0.4
Adjustment of prior year tax provision	**(1.4)**	-
Unrealized net loss (gain) on derivative financial instruments	**2.4**	(7.4)
Adjustment for accrued compensation	**1.6**	(0.2)
Increase in investment's fair value	**(0.4)**	(0.8)
Other	**-**	(0.3)
Operating funding surplus (deficit) for the year	**-**	-

8. MATERIALS

The cost of its materials recorded as an expense during the year amounted to $29.0 million (December 2010: $30.6 million). The Corporation has no significant expense related to write-down of the value of its materials for 2011 and 2010.

9. PROPERTY, PLANT AND EQUIPMENT

	January 1, 2011	Additions	Retirement and Disposals	December 31, 2011
Cost:				
Land	8.5	1.2	(0.1)	**9.6**
Rolling stock	803.6	43.3	(23.5)	**823.4**
Maintenance buildings	134.4	4.0	-	**138.4**
Stations and facilities	55.9	8.3	-	**64.2**
Owned infrastructures	133.2	31.4	-	**164.6**
Leasehold improvements	71.5	2.1	-	**73.6**
Machinery and equipment	35.9	0.3	-	**36.2**
Computer hardware	11.1	1.6	-	**12.7**
Other property, plant and equipment	22.2	0.3	-	**22.5**
Total cost	**1,276.3**	**92.5**	**(23.6)**	**1,345.2**
Accumulated amortization and impairments:				
Rolling stock	382.9	26.1	(22.5)	**386.5**
Maintenance buildings	79.7	3.9	-	**83.6**
Stations and facilities	27.3	2.2	-	**29.5**
Owned infrastructures	47.6	3.8	-	**51.4**
Leasehold improvements	46.5	2.7	-	**49.2**
Machinery and equipment	25.8	1.3	-	**27.1**
Computer hardware	8.5	1.3	-	**9.8**
Other property, plant and equipment	19.2	0.4	-	**19.6**
Total accumulated amortization and impairments	**637.5**	**41.7**	**(22.5)**	**656.7**
Project in progress	91.0	35.3	-	**126.3**
Retired assets	0.1	-	-	**0.1**
Total net carrying amount	**729.9**	**86.1**	**(1.1)**	**814.9**

9. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	January 1, 2010	Additions	Retirement and Disposals	December 31, 2010
Cost:				
Land	6.0	2.5	-	**8.5**
Rolling stock	782.7	43.3	(22.4)	**803.6**
Maintenance buildings	131.5	2.9	-	**134.4**
Stations and facilities	47.6	8.3	-	**55.9**
Owned infrastructures	115.0	18.2	-	**133.2**
Leasehold improvements	65.8	5.7	-	**71.5**
Machinery and equipment	31.9	4.2	(0.2)	**35.9**
Computer hardware	8.8	2.3	-	**11.1**
Other property, plant and equipment	21.4	0.8	-	**22.2**
Total cost	**1,210.7**	**88.2**	**(22.6)**	**1,276.3**
Accumulated amortization and impairments:				
Rolling stock	375.7	28.4	(21.2)	**382.9**
Maintenance buildings	76.1	3.6	-	**79.7**
Stations and facilities	25.2	2.1	-	**27.3**
Owned infrastructures	43.6	4.0	-	**47.6**
Leasehold improvements	44.0	2.5	-	**46.5**
Machinery and equipment	24.1	1.8	(0.1)	**25.8**
Computer hardware	7.7	0.8	-	**8.5**
Other property, plant and equipment	18.9	0.3	-	**19.2**
Total accumulated amortization and impairments	**615.3**	**43.5**	**(21.3)**	**637.5**
Project in progress	77.7	13.3	-	**91.0**
Retired assets	0.3	-	(0.2)	**0.1**
Total net carrying amount	**673.4**	**58.0**	**(1.5)**	**729.9**

Projects in progress primarily consist of rolling stock, improvements to infrastructure and stations. The projects in progress amount includes $21.1 million (December 31, 2010: $15.8 million; January 1, 2010: $1.7 million) of materials used in the refurbishing of rail cars.

The amortization expense of property, plant and equipment was $ 41.7 million for the year (December 31, 2010: $ 38.9 million).

10. INTANGIBLE ASSETS

[illegible]	January 1, 2011	Additions	Retirement and Disposals	December 31, 2011
Cost:				
Internally generated software	51.2	3.9	(0.8)	**54.3**
Right of access to rail infrastructure	75.5	97.9	-	**173.4**
Other intangible	3.5	-	-	**3.5**
Total cost	**130.2**	**101.8**	(0.8)	**231.2**
Accumulated amortization and impairments:				
Internally generated software	43.3	3.6	-	**46.9**
Right of access to rail infrastructure	41.7	2.2	-	**43.9**
Other intangible	0.7	0.8	-	**1.5**
Total accumulated amortization and impairments	**85.7**	**6.6**	**-**	**92.3**
Project in progress	190.8	7.5	-	**198.3**
Total net carrying amount	**235.3**	**102.7**	**(0.8)**	**337.2**

[illegible]	January 1, 2010	Additions	Retirement and Disposals	December 31, 2010
Cost:				
Internally generated software	44.6	6.6	-	**51.2**
Right of access to rail infrastructure	74.8	0.7	-	**75.5**
Other intangible	3.5	-	-	**3.5**
Total cost	**122.9**	**7.3**	**-**	**130.2**
Accumulated amortization and impairments:				
Internally generated software	39.6	3.7	-	**43.3**
Right of access to rail infrastructure	39.7	2.0	-	**41.7**
Other intangible	0.5	0.2	-	**0.7**
Total accumulated amortization and impairments	**79.8**	**5.9**	**-**	**85.7**
Project in progress	31.0	159.8	-	**190.8**
Total net carrying amount	**74.1**	**161.2**	**-**	**235.3**

The amortization expense of intangible assets for the year was $6.6 million (December 31, 2010: $5.9 million).

11. ASSET RENEWAL FUND

A) ASSET RENEWAL FUND

The Corporation has been authorized by the Treasury Board of Canada Secretariat to set aside funds in a manner which ensures that these funds are retained for future capital projects. However, the Treasury Board of Canada Secretariat could approve the use of the Asset Renewal Fund to finance operating deficits.

The investments in the Asset Renewal Fund include the following:

	December 31, 2011	December 31, 2010	January 1, 2010
	Carrying Value and Fair Value	Carrying Value and Fair Value	Carrying Value and Fair Value
Bankers' acceptances	**21.9**	28.2	20.3
Provincial Treasury bills and /or promissory notes	**7.0**	7.8	23.6
Master Asset Vehicle (MAV) notes	**5.0**	4.9	4.5
Balance at end of year	**33.9**	**40.9**	**48.4**
Less: Current portion	**24.0**	**15.3**	**25.3**
Non-current portion	**9.9**	**25.6**	**23.1**

The Treasury Board of Canada Secretariat has authorized the Corporation to use up to $24.0 million (December 31, 2010: $15.3 million; January 1, 2010: $25.3 million) of the Asset Renewal Fund to meet future working capital requirements. This amount is presented in the current portion of the Asset Renewal Fund.

The weighted average effective rate of return on short-term investments excluding MAV notes as at December 31, 2011 was 1.11 per cent (December 31, 2010: 1.09 per cent; January 1, 2010: 0.24 per cent). The weighted average term to maturity excluding MAV notes as at December 31, 2011 is three months (December 31, 2010: one month; January 1, 2010: two months).

The fair value of short-term investments is based on the current bid price at the statement of financial position date, except for the MAV notes as described in Note 11 c).

Apart from the MAV notes, the Asset Renewal Fund is invested in 26 short-term instruments (December 31, 2010: 14; January 1, 2010: 19) that have a rating of "R-1 low" or higher. Diversification in the short-term instruments is achieved by limiting to 10 per cent or less the percentage of the market value of the Asset Renewal Fund assets invested in instruments of a single issuer.

The Corporation is subject to credit risk from its holdings in the Asset Renewal Fund. The Corporation minimizes its credit risk by adhering to the *Minister of Finance of Canada Financial Risk Management Guidelines for Crown Corporations* and to the Corporation's Asset Renewal Fund Investment Policy, which requires that funds be invested in high quality financial instruments.

B) CHANGES IN THE ASSET RENEWAL FUND

The changes in the closing balance of the Asset Renewal Fund resulted from the following movements during the year:

[illegible]	December 31, 2011	December 31, 2010
Balance at beginning of the year	**40.9**	48.4
Proceeds from sale or lease of surplus assets	**0.5**	1.5
Investment Income	**0.4**	0.2
Change in fair value	**0.4**	0.8
Less: Cash drawdown during the year	**(8.3)**	(10.0)
Balance at end of the year	**33.9**	**40.9**

C) MASTER ASSET VEHICLE (MAV) NOTES

On March 17, 2008, the Pan-Canadian Investors Committee (the "Committee") for Asset Backed Commercial Paper (ABCP) filed proceedings for a plan of compromise and arrangement (the "Plan") under the *Companies' Creditors Arrangement Act* (Canada) ("CCAA") with the Ontario Superior Court. At the meeting of ABCP note holders on April 25, 2008, note holders approved the Plan by the required majorities. On June 5, 2008, the Court issued a sanction order and reasons for the decision approving the Plan as amended. On August 18, 2008, that decision was upheld by the Ontario Court of Appeal and, on September 19, 2008, the Supreme Court of Canada denied leave to the appeal. On December 24, 2008, the Committee announced that an agreement had been reached with all key stakeholders, including the governments of Canada, Quebec, Ontario and Alberta to provide additional margin facilities to support the Plan and finalized certain enhancements to the Plan.

On January 12, 2009, the Ontario Superior Court issued the final implementation order in the ABCP restructuring process. The restructuring closed on January 21, 2009. On this date, the Corporation received $8.6 million in face value of restructured long-term amortizing floating rate notes in exchange for $8.7 million face value of original ABCP held previously that had been illiquid since the market disruptions of August 2007.

The new notes, now referred to as Master Asset Vehicle (MAV) notes, have legal maturities ranging from 2013 to 2056 and have remained somewhat illiquid since issued. In the absence of a truly liquid secondary market, management has developed a discounted cash flow valuation model to estimate the fair value of the MAV notes. The valuation model incorporates assumptions for interest rates, required market yields and effective maturities, some of which are derived from observable market indicators. In 2011, $0.2 million of capital was received ($1.1 million since the restructuring) and, since restructuring, a $0.3 million notional loss was recognized, leaving an outstanding face value as at December 31, 2011 of $7.2 million (December 31, 2010: $7.8 million; January 1, 2010: $8.2 million). The estimated fair value of the outstanding notes is $5.1 million as at December 31, 2011 (December 31, 2010: $4.9 million; January 1, 2010: $4.5 million) representing 70 per cent of their face value.

The Corporation's estimated fair value for its MAV notes is subject to significant risks and uncertainties, including the timing and amount of future cash flows, the potential for deterioration in the credit quality of the underlying assets and financial instruments as well as changes in interest rates and credit spreads. Accordingly, the Corporation's assessment of the fair value of its MAV notes holdings could change significantly in the future.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Accounts payable and accrued liabilities balance includes the following:

[illegible]	December 31, 2011	December 31, 2010	January 1, 2010
Wages payable and accrued	**39.6**	36.9	38.4
Capital Payables	**26.6**	53.5	32.6
Trade payables	**29.5**	35.5	33.6
Capital tax, income tax and other taxes payable	**7.0**	8.6	10.8
Other	**1.1**	1.5	1.1
	103.8	**136.0**	**116.5**

13. PROVISIONS

The provision balance includes:

[illegible]	December 31, 2010	Charge (used)	Reversal (used)	Reversal (not used)	Other movements	December 31, 2011
Environmental costs (Note a)	**0.8**	-	(0.6)	-	-	**0.2**
Litigation and contractual disputes (Note b)	**15.2**	-	(0.7)	-	-	**14.5**
Restructuring costs (note c)	-	3.0	-	-	-	**3.0**
Other	**0.3**	0.1	-	-	-	**0.4**
Total provisions	**16.3**	**3.1**	**(1.3)**	-	-	**18.1**

[illegible]	January 1, 2010	Charge (used)	Reversal (used)	Reversal (not used)	Other movements	December 31, 2010
Environmental costs (Note a)	**0.8**	-	-	-	-	**0.8**
Litigation and contractual disputes (Note b)	**12.0**	3.2	-	-	-	**15.2**
Other	**0.9**	-	(0.6)	-	-	**0.3**
Total provisions	**13.7**	**3.2**	**(0.6)**	-	-	**16.3**

A) ENVIRONMENTAL COSTS

A new environmental law came into force in June 2008 for Petroleum Storage Equipment that requires registration of existing and new tank systems. The Corporation has assessed the impact and a preliminary action plan has been prepared to ensure compliance with the law by 2012. The Corporation has made a provision of $0.2 million for environmental costs (December 31, 2010: $0.8 million; January 1, 2010: $0.8 million), which is recorded in Provisions.

B) LITIGATION AND CONTRACTUAL DISPUTES

The Corporation began a restructuring of its labour force in 1997 which resulted in the elimination of a number of positions. The changes became subject to various Canadian Industrial Relations Board (CIRB) decisions, mediations and arbitrations.

In May 2003, the CIRB rendered a decision directing the Corporation to pay back wages under certain circumstances to former conductors. The Supreme Court of Canada decided not to grant the Corporation leave to appeal a Federal Court of Appeal ruling supporting the decision of the CIRB.

The Corporation is waiting for the final ruling from the arbitrator. The Corporation has made a provision in its Financial Statements.

The Corporation is also subject to claims and legal proceedings brought against it in the normal course of business. Such matters are subject to many uncertainties. Management believes that adequate provisions have been made in the accounts where required and the ultimate resolution of such contingencies is not expected to have a material adverse effect on the financial position of the Corporation.

C) RESTRUCTURING COSTS

The Corporation has announced some cost saving measures by implementing a new regionally-based organizational structure. These changes were announced in December 2011 and will be completed in March 2012.

14. EMPLOYEE BENEFITS

The Corporation provides a number of funded defined benefit pension plans as well as unfunded other post-employment benefits including post-retirement medical, dental and life insurance benefits. The Corporation also provides long-term employee benefits such as an unfunded self-insured workers' compensation benefits, long-term employee disability benefits and continuation of benefit coverage for employees on long-term disability. The actuarial valuations for employee benefits are carried out by external actuaries who are members of the Canadian Institute of Actuaries.

Defined Benefit Pension Plans

The defined benefit pension plans are based on years of service and final average salary of the employee's best five consecutive calendar years up to retirement.

Pension benefits increase annually by 50 per cent of the increase in the Consumer Price Index in the 12 months ending in December subject to a maximum increase of 3 per cent in any year.

The latest actuarial valuations of the pension plans were carried out as at December 31, 2010. The next actuarial valuation will be carried out subsequent to year-end with a measurement date as at December 31, 2011.

The actuarial valuation of the Supplemental Executive Retirement Plan is carried out annually. The latest actuarial valuation was carried out as at December 31, 2011.

The actuarial valuation of the Supplemental Retirement Plan for management employees (SRP), with respect to retired members, is carried out annually. The latest actuarial valuation was carried out as at December 31, 2011. The latest actuarial valuation for active members, of the SRP was carried out as at December 31, 2010, and the next actuarial valuation will be carried out subsequent to year-end with a measurement date as at December 31, 2011.

14. EMPLOYEE BENEFITS (CONT'D)

Post-employment Benefit Plans

The latest actuarial valuation for the post-employment unfunded plan was carried out as at May 1, 2010. The next actuarial valuation will be carried out subsequent to year-end with a measurement date as at May 1, 2013.

Long-term Employee Benefit Plans

The latest actuarial valuation for the self-insured workers' compensation was carried out as at December 31, 2009. The next actuarial valuation will be carried out subsequent to year-end with a measurement date as at December 31, 2012.

The latest actuarial valuation for the other long-term employee benefits was carried out as at December 31, 2010. The next actuarial valuation will be carried out subsequent to year-end with a measurement date as at December 31, 2013.

A) PENSION PLANS AND POST-EMPLOYMENT BENEFITS PLANS

Based on these actuarial valuations and projections to December 31, the summary of the principal valuation results, in aggregate, excluding the self-insured workers' compensation benefits is as follows:

	Pension Plans		Post-employment Benefit Plans	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
ACCRUED BENEFIT OBLIGATION:				
Balance at beginning of the year	**1,593.5**	1,328.3	**13.6**	10.6
Current service cost	**24.7**	18.0	**0.4**	0.3
Interest cost	**87.2**	87.6	**0.8**	0.7
Plan amendment	-	-	**0.6**	0.8
Employee contributions	**10.1**	10.1	-	-
Benefits paid	**(92.8)**	(89.9)	**(0.6)**	(0.4)
Actuarial losses	**237.8**	233.6	**2.0**	1.6
Plan curtailment	-	5.8	-	-
Balance at end of the year	**1,860.5**	**1,593.5**	**16.8**	**13.6**
FAIR VALUE OF PLAN ASSETS:				
Balance at beginning of the year	**1,588.2**	1,481.0	-	-
Expected return on plan assets	**97.7**	93.9	-	-
Actuarial (loss) gain	**(61.2)**	69.2	-	-
Employer contributions	**44.1**	23.9	**0.6**	0.4
Employee contributions	**10.1**	10.1	-	-
Benefits paid	**(92.8)**	(89.9)	**(0.6)**	(0.4)
Balance at end of the year	**1,586.1**	**1,588.2**	-	-

The percentage of the fair value of the total pension plan assets by major category as follows:

Asset categories:	December 31, 2011	December 31, 2010	January 1, 2010
Equity securities (public market)	**49.1%**	51.2%	50.7%
Fixed income securities (public market)	**44.3%**	42.1%	43.3%
Private equity, infrastructure and other	**6.6%**	6.7%	6.0%
	100.0%	100.0%	100.0%

[illegible]	December 31, 2011	December 31, 2010
Components of Pension cost:		
Current service cost	**24.7**	18.0
Interest cost	**87.2**	87.6
Expected return on plan assets	**(97.7)**	(93.9)
Curtailment	-	5.8
Actuarial loss recognized in the year	**2.1**	-
Total pension cost	**16.3**	**17.5**
Components of Post-employment benefit cost:		
Current service cost	**0.4**	0.3
Interest cost	**0.8**	0.7
Vested Past service cost	**0.5**	0.2
Total post-employment benefit costs	**1.7**	**1.2**

Amounts Recognized in the Statement of financial position (see note 14 d):

[illegible]	Pension Plans			Post-employment Benefit Plans		
	December 31, 2011	December 31, 2010	January 1, 2010	December 31, 2011	December 31, 2010	January 1, 2010
Benefit obligation	**(1,860.5)**	(1,593.5)	(1,328.3)	**(16.8)**	(13.6)	(10.6)
Fair value of plan assets	**1,586.1**	1,588.2	1,481.0	-	-	-
Surplus (deficit)	**(274.4)**	**(5.3)**	**152.7**	**(16.8)**	**(13.6)**	**(10.6)**
Unamortized past service costs	-	-	-	**0.7**	0.6	-
Unamortized net actuarial loss	**461.3**	164.4	-	**3.6**	1.6	-
Net asset (liability)	**186.9**	**159.1**	**152.7**	**(12.5)**	**(11.4)**	**(10.6)**

14. EMPLOYEE BENEFITS (CONT'D)

History of experience gains and losses for pension plans:

(IN MILLIONS OF DOLLARS)	December 31, 2011	December 31, 2010
Benefit obligation	**(1,860.5)**	(1,593.5)
Fair value of plan assets	**1,586.1**	1,588.2
Deficit	**(274.4)**	**(5.3)**
Difference between expected and actual return on plan assets:		
- Amount	**(61.2)**	(69.1)
- Percentage of plan assets	**(3.85%)**	(4.35%)
Experience loss (gain) on plan liabilities:		
- Amount	**14.7**	20.2
- Percentage of plan liabilities	**0.79%**	1.27%

Expected employer contribution for the next year:

	Pension Plans	Post-employment Benefit Plans
(IN MILLIONS OF DOLLARS)	December 31, 2011	December 31, 2011
Expected employer contribution for the next year	**68.0**	5.9

	Pension Plans		Post-employment Benefit Plans	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
WEIGHTED-AVERAGE OF SIGNIFICANT ASSUMPTIONS:				
Accrued benefit obligation :				
Discount rate	**4.50%**	5.50%	**4.50%**	5.50%
Rate of compensation increase	**3.00% - 3.25%**	3.00%	**3.00% - 3.25%**	3.00%
Rate of pension increase	**1.13%**	1.25%	-	-
Expenses:				
Discount rate	**5.50%**	6.50%	**5.50%**	6.50%
Expected long-term rate of return on plan assets	**6.25%**	6.50%	-	-
Rate of compensation increase	**3.00%**	3.00%	**3.00%**	3.00%
Rate of pension increase	**1.13%**	1.25%	-	-
Actual return on plan assets	**2.30%**	11.30%	-	-
ASSUMED HEALTH CARE COST TREND RATES AS AT THE END OF THE YEAR:				
Initial health care cost trend rate	-	-	**7.31%**	7.47%
Cost trend rate declines to	-	-	**4.33%**	4.50%
Year ultimate rate is reached	-	-	**2025**	2025

To develop the expected long-term rate of return on assets, the Corporation considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets for the portfolio. This resulted in the selection of the 6.25% assumption (December 31, 2010: 6.50%).

SENSITIVITY ANALYSIS

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects as at:

	Increase			Decrease		
	December 31, 2011	December 31, 2010	January 1, 2010	December 31, 2011	December 31, 2010	January 1, 2010
Total service and interest cost	**29**	24	26	**(24)**	(20)	(23)
Accrued benefit obligation	**114**	94	80	**(94)**	(78)	(73)

B) LONG-TERM EMPLOYEE BENEFIT PLANS

Based on these actuarial valuations and projections to December 31, the summary of the principal valuation results for the self-insured workers' compensation benefits and other long-term employee benefits is as follows:

	December 31, 2011	December 31, 2010
ACCRUED BENEFIT OBLIGATION:		
Balance at beginning of the year	**20.9**	20.5
Current service cost	**5.0**	4.9
Interest cost	**1.0**	1.1
Benefits paid	**(6.6)**	(7.1)
Actuarial losses	**1.9**	1.5
Balance at end of the year	**22.2**	20.9
FAIR VALUE OF PLAN ASSETS:		
Balance at beginning of the year	**-**	-
Employer contributions	**6.6**	7.1
Benefits paid	**(6.6)**	(7.1)
Balance at end of the year	**-**	-

14. EMPLOYEE BENEFITS (CONT'D)

Components of cost:

[illegible]	December 31, 2011	December 31, 2010
Current service cost	**5.0**	4.9
Interest cost	**1.0**	1.1
Actuarial loss recognized in the year	**1.9**	1.5
Total cost	**7.9**	**7.5**

Amounts Recognized in the Statement of financial position (see note 14d):

[illegible]	December 31, 2011	December 31, 2010	January 1, 2010
Benefit obligation	**(22.2)**	(20.9)	(20.5)
Fair value of plan assets	**-**	-	-
Net liability	**(22.2)**	**(20.9)**	**(20.5)**

Expected employer contribution for the next year:

[illegible]	December 31, 2011
Expected employer contribution for the next year	**6.1**

Weighted-average of significant assumptions:

	December 31, 2011	December 31, 2010
Accrued benefit obligation:		
Discount rate	**3.75%**	4.75%
Rate of compensation increase	**3.00%**	3.00%
Expenses:		
Discount rate	**4.75%**	5.25%
Rate of compensation increase	**3.00%**	3.00%

Assumed health care cost trend rates as at the end of the year:

	December 31, 2011	December 31, 2010
Initial health care cost trend rate	**5.90%**	6.00%
Cost trend rate declines to	**3.90%**	3.90%
Year ultimate rate is reached	**2025**	2025

SENSITIVITY ANALYSIS

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects as at:

	Increase			Decrease		
	December 31, 2011	December 31, 2010	January 1, 2010	December 31, 2011	December 31, 2010	January 1, 2010
Total service and interest cost	**23**	19	8	**(20)**	(17)	(7)
Accrued benefit obligation	**101**	99	85	**(91)**	(90)	(74)

C) NETWORK RESTRUCTURING OBLIGATION

Network restructuring obligation, comprised mainly of maintenance of earnings of benefits, is as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Network restructuring obligation	**(0.7)**	(0.8)	(0.8)

D) SUMMARY OF PENSIONS PLANS, POST-EMPLOYMENT BENEFIT PLANS AND LONG-TERM EMPLOYEE BENEFIT PLANS RECOGNIZED IN THE FINANCIAL STATEMENTS

Total amounts recognized in the Statement of financial position:

	December 31, 2011	December 31, 2010	January 1, 2010
Assets:			
Pension Plans	**186.9**	159.1	152.7
Liabilities:			
Post-employment benefit plans	**(12.5)**	(11.4)	(10.6)
Long-term employee benefit plans	**(22.2)**	(20.9)	(20.5)
Network Restructuring obligation	**(0.7)**	(0.8)	(0.8)
Total	**(35.4)**	**(33.1)**	**(31.9)**

Total amounts recognized in the Statement of Operations and Comprehensive Income:

	December 31, 2011	December 31, 2010
Pension Plans	**16.3**	17.5
Post employment Benefit Plans	**1.7**	1.2
Long-term employee benefit plans	**7.9**	7.5
Network restructuring costs	**(0.1)**	-
Total components of cost	**25.8**	**26.2**

15. CORPORATE TAXES

The corporate tax (recovery) expense of the Corporation consists of the following:

	December 31, 2011	December 31, 2010
Current corporate tax recovery	**(4.4)**	**(0.4)**
Deferred corporate tax (recovery) expense:		
Deferred tax expense related to reversal of temporary differences	**4.3**	4.0
Effect on reversal of unused tax credits	**1.8**	-
Effect of reversal of previous write-downs of deferred tax assets	**(6.8)**	(3.6)
Adjustment recognized in the current year in relation to the deferred tax of prior years	**0.3**	-
Deferred corporate tax (recovery) expense	**(0.4)**	**0.4**
Corporate tax recovery	**(4.8)**	-

The overall corporate tax recovery for the year differs from the amount that would be computed by applying the combined Federal and provincial statutory income tax rates of 26.19% per cent (December 2010: 28.35% per cent) to income before corporate taxes. The reasons for the differences are as follows:

	December 31, 2011	December 31, 2010
Income before corporate taxes	**15.3**	**13.1**
Computed corporate tax recovery - statutory rates	**4.0**	3.7
Large Corporation tax and corporate minimum tax	**(4.4)**	(0.4)
Non-taxable portion of capital and accounting gains and other	**0.1**	-
Effect on reversal of unused tax credits	**1.8**	-
Effect of reversal of previous write-downs of deferred tax assets	**(6.8)**	(3.6)
Effect of tax rate changes on deferred corporate taxes	**0.2**	0.3
Adjustment recognized in the current year in relation to the deferred tax of prior years	**0.3**	-
Corporate tax recovery	**(4.8)**	-

Deferred corporate tax reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the deferred corporate tax assets and (liabilities) of the Corporation are as follows:

A) DEFERRED TAX BALANCES – DECEMBER 31, 2011

[illegible]	Opening Balance	Recognized in net income	Closing Balance
Deferred corporate tax assets (liabilities):			
Government assistance	**10.9**	(9.4)	**1.5**
Property, plant and equipment	**13.4**	8.2	**21.6**
Contingencies, other liabilities and net amounts	**2.2**	1.6	**3.8**
Accrued benefit liability	**6.8**	0.6	**7.4**
Unrealized loss on derivative financial instruments	**(0.9)**	0.6	**(0.3)**
Accrued Benefit Asset	**(37.6)**	(6.8)	**(44.4)**
	(5.2)	(5.2)	**(10.4)**
Loss carry-forward	**4.8**	5.6	**10.4**
Deferred corporate tax assets (liabilities)	**(0.4)**	**0.4**	-

B) DEFERRED TAX BALANCES – DECEMBER 31, 2010

[illegible]	Opening Balance	Recognized in net income	Closing Balance
Deferred corporate tax assets (liabilities):			
Government assistance	-	10.9	**10.9**
Property, plant and equipment	**13.3**	0.1	**13.4**
Contingencies, other liabilities and net amounts	**0.4**	1.8	**2.2**
Accrued benefit liability	**6.5**	0.3	**6.8**
Unrealized loss on derivative financial instruments	**(0.3)**	(0.6)	**(0.9)**
Accrued Benefit Asset	**(36.0)**	(1.6)	**(37.6)**
	(16.1)	10.9	**(5.2)**
Loss carry-forward	**16.1**	(11.3)	**4.8**
Deferred corporate tax assets (liabilities)	-	**(0.4)**	**(0.4)**

15. CORPORATE TAXES (CONT'D)

The Corporation has $50.3 million (December 31, 2010: $24.8 million; January 1, 2010: $78.8 million) of unused Quebec non-capital tax losses carried forward and expiring in 2029 and 2031.

Unrecognized deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognized are attributed to the following:

[illegible]	December 31, 2011	December 31, 2010	January 1, 2010
Federal:			
Contingencies, other liabilities and net amounts	**0.3**	17.9	27.8
Unused tax credits	-	2.5	9.0
	0.3	**20.4**	**36.8**
Quebec:			
Government assistance	**7.0**	51.0	-
Property, plant and equipment	**275.2**	276.9	281.6
Accrued benefit liability	**34.8**	32.3	31.1
Loss carry forward	**50.3**	24.8	78.8
Contingencies, other liabilities and net amounts	**18.6**	17.9	27.7
	385.9	**402.9**	**419.2**

16. DEFERRED CAPITAL FUNDING

Deferred capital funding represents the unamortized portion of the funding used to purchase property, plant and equipment and intangible assets.

[illegible]	December 31, 2011	December 31, 2010
Balance, beginning of the year	**965.6**	746.0
Government funding for property, plant and equipment and intangible assets (including the cost of land)	**224.7**	268.6
Amortization of deferred capital funding	**(46.5)**	(49.0)
Balance, end of the year	**1,143.8**	**965.6**

17. CAPITAL

The authorized share capital of the Corporation is comprised of an unlimited number of common shares with no par value. For all years presented, 93,000 shares at $100 per share are issued and fully paid.

The Corporation defines its capital as share capital and retained earnings and is regulated by the *Financial Administration Act*. The Corporation is not allowed to modify its capital structure without Government approval. The Corporation must obtain Government approval to issue debt instruments. Accordingly, the Corporation does not have access to external financing and does not have a flexible capital structure.

The Corporation manages its equity by prudently managing revenues, expenses, assets, liabilities, investments and general financial dealings to ensure that the Corporation effectively achieves its objectives and purpose while remaining a going concern. The Corporation did not change the way it manages its equity compared to last year.

18. COMMITMENTS

a) The Corporation has operating leases in place mainly for facilities, maintenance of way and computer equipment. The most important leases are for the Montreal and Toronto stations with respective terms of 10 and 49 years without renewal option as well as the lease for the Corporate headquarters in Montreal for a term of 12 years with a renewal option. The lease payments are increased to reflect normal inflation.

In 2011, an amount of $12.5 million (December 31, 2010: $13.3 million) was recognized as an expense in respect of facilities operating leases.

The future minimum payments relating to facilities operating leases with a cancellation option are as follows:

[illegible]	December 31, 2011	December 31, 2010	January 1, 2010
Less than one year	**11.5**	11.2	24.2
Between one and five years	**38.1**	40.1	77.1
More than five years	**161.4**	170.6	179.0
	211.0	**221.9**	**280.3**

b) As at December 31, 2011, the Corporation has outstanding major contract commitments amounting to $182.8 million (December 31, 2010: $348.2 million; January 1, 2010: $498.8 million) consisting mainly in maintenance and completion of rolling stock refurbishment projects. In 2009, the Corporation initiated important investments related to the Federal Government's economic stimulus package and reliability program. The Corporation expects to make payments under these commitments over the next 4 years.

c) As mentioned in note 1, the Corporation has entered into train service agreements for the use of tracks and the control of train operations that expire on December 31, 2018.

d) The Corporation has issued letters of credit totalling approximately $ 29.3 million (December 31, 2010: $26.3 million) to various provincial government workers' compensation boards as security for future payment streams.

19. FINANCIAL INSTRUMENTS

A) CLASSIFICATION OF FINANCIAL INSTRUMENTS

The financial instruments held by the Corporation are classified as follows:

	December 31, 2011 Carrying Value			December 31, 2010 Carrying Value			January 1, 2010 Carrying Value		
	FVTPL	AFS	L&R	FVTPL	AFS	L&R	FVTPL	AFS	L&R
Financial Assets:									
Cash and cash equivalents	4.4	8.9[3]	-	3.5	73.3[3]	-	-	4.6[3]	-
Accounts receivables and other receivables	-	-	10.3[1]	-	-	8.3[1]	-	-	7.2[1]
Derivative financial instruments	2.2[2]	-	-	4.6[2]	-	-	3.1[2]	-	-
Asset Renewal Fund – MAV notes	5.0	-	-	4.9	-	-	4.5	-	-
Asset Renewal Fund – Other investments	-	28.9[3]	-	-	36.0[3]	-	-	43.9[3]	-
		FVTPL	Other liability		FVTPL	Other liability		FVTPL	Other liability
Financial Liabilities:									
Accounts payable and accrued liabilities		-	95.1[4]		-	125.0[4]		-	103.5[4]
Derivative financial instruments		1.2[2]	-		1.2[2]	-		7.1[2]	-

FVTPL – Fair Value through profit and losses
AFS – Available for sale
L&R – Loans and receivables
(1) Comprised of trade receivables.
(2) Comprised of derivative financial instruments not designated in a hedge relationship.
(3) Comprised of short-term investments.
(4) Comprised of trade accounts payable, accrued liabilities and accrued wages.

B) FAIR VALUE

The estimated fair value of the recognized financial instruments other than financial instruments measured at FVTPL approximates their carrying value due to their short-term nature. FVTPL financial instruments and derivatives are carried at fair value.

The Corporation estimates the fair value of its MAV notes by discounting expected future cash flows. The valuation model incorporates assumptions for interest rates, required market yields and effective maturities, some of which are derived from observable market indicators. There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the MAV notes.

The assumptions used in the valuation model include:

	Assumptions		
Criteria	December 31, 2011	December 31, 2010	January 1, 2010
Expected term to maturity	4.6 years	5.5 years	6.3 years
Discount Rates	7.1% to 67.0%	8.6% to 43.6%	9.8% to 33.0%
Coupon rates	CDOR swap - 50bps to CDOR swap + 30bps	CDOR swap - 50bps to CDOR swap + 30bps	CDOR swap - 50bps to CDOR swap + 30bps

If these assumptions were to change, the fair value of the MAV notes could change significantly. A 1.0% increase (decrease) in the discount rate would decrease (increase) the fair value of the MAV notes by approximately $0.2 million (December 31, 2010: $0.2 million; January 1, 2010: $0.2 million).

All financial instruments measured at fair value are classified in fair value hierarchy levels, which are as follows:

Level 1 – Financial instruments are considered Level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities.

Level 2 – Level 2 financial instruments are valued using quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or models using inputs that are observable.

Level 3 – Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.

19. FINANCIAL INSTRUMENTS (CONT'D)

The following table summarizes the fair value hierarchy applicable to the fair value measurement of financial assets and financial liabilities held by the Corporation (Note 1):

[illegible]	Dec. 31, 2011	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	**13.3**	13.3	-	-
Asset Renewal Fund – MAV notes	**5.0**	-	-	5.0
Asset Renewal Fund – Other investments	**28.9**	28.9	-	-
Derivative financial instruments	**2.2**	-	2.2	-
Liabilities:				
Derivative financial instruments	**1.2**	-	1.2	-

Note 1 – There have been no significant transfers between Level 1 and Level 2 during the year.

[illegible]	Dec. 31, 2010	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	**76.8**	76.8	-	-
Asset Renewal Fund – MAV notes	**4.9**	-	-	4.9
Asset Renewal Fund – Other investments	**36.0**	36.0	-	-
Derivative financial instruments	**4.6**	-	4.6	-
Liabilities:				
Derivative financial instruments	**1.2**	-	1.2	-

Note 1 – There have been no significant transfers between Level 1 and Level 2 during the year.

[illegible]	January 1, 2010	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	**4.6**	4.6	-	-
Asset Renewal Fund – MAV notes	**4.5**	-	-	4.5
Asset Renewal Fund – Other investments	**43.9**	43.9	-	-
Derivative financial instruments	**3.1**	-	3.1	-
Liabilities:				
Derivative financial instruments	**7.1**	-	7.1	-

The table below presents a reconciliation of all financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

[illegible]	December 31, 2011	December 31, 2010
Asset Renewal Fund – MAV notes:		
Opening balance	**4.9**	4.5
Total gains in net income (1)	**0.4**	0.8
Sales	**(0.3)**	(0.4)
Closing balance	**5.0**	**4.9**

(1) A gain of $ 0.1 M is included in this amount and attributable to assets still held at the end of the year.

C) RISK MANAGEMENT

As part of its operations, the Corporation enters into transactions with financial risks exposure such as credit, liquidity and market risks. Exposure to such risks is significantly reduced through close monitoring and strategies that include the use of derivative financial instruments.

D) FOREIGN EXCHANGE RISK

The Corporation is exposed to foreign exchange risks on the following balances that are denominated in U.S. dollars (USD):

[illegible]	December 31, 2011	December 31, 2010	January 1, 2010
Assets:			
Derivative financial instruments	**2.2**	4.6	3.1
Liabilities:			
Accounts payables and accrued liabilities	**0.8**	1.2	1.6
Derivative financial instruments	**1.2**	1.2	7.1

The Corporation's risk management objective is to reduce cash flow risk related to foreign denominated cash flows. To help manage this risk, the Corporation has entered into foreign exchange forward contracts related to fuel swaps and the purchase of materials from the U.S. to refurbish some of its locomotives fleet.

A variance of 5% in the exchange rate of USD would not have a significant impact on the Corporation's net income.

E) CREDIT RISK

Credit risk is the risk that one party to a financial instrument might not meet its obligations under the terms and conditions of the agreement. The carrying amount of financial assets is $59.7 million (December 31, 2010: $130.6 million; January 1, 2010: $63.3 million) and represents the Corporation's maximum exposure to credit risk. The Corporation does not use credit derivatives or similar instruments to mitigate this risk and, as such, the maximum exposure is the full carrying value or face value of its financial assets. The Corporation minimizes credit risk on cash and cash equivalents, investments, Asset Renewal Fund and derivative financial instruments by dealing only with reputable and high quality financial institutions. The Corporation's exposure to credit risks on trade accounts receivable is reduced by applying a credit policy that establishes limits on the concentration of risk, requires assessing and monitoring of counterparty credit risk and sets credit limits. Only Canadian Government departments and agencies, Crown corporations issuing government travel warrants and travel agents who are members of the International Air Transport Association (Billing and Settlement Plan /Airline Reporting Corporation) are exempt from the Corporation's credit approval process.

As at December 31, 2011, approximately 31.5% (December 31, 2010: 19.8%; January 1, 2010: 17.8%) of trade accounts receivable were over 90 days past due, while approximately 57.2% (December 31, 2010: 69.9%; January 1, 2010: 70.8%) of trade accounts receivable were current (under 30 days).

As at December 31, 2011, the allowance for bad debt was $ 1.3 million (December 31, 2010: $0.8 million; January 1, 2010: $0.5 million). The allowance for bad debt is based on an account by account analysis that considers the aging of the account and the current credit-worthiness of the customer.

19. FINANCIAL INSTRUMENTS (CONT'D)

F) FUEL PRICE RISK

In order to manage its exposure to changes in fuel and heating oil prices and minimize volatility in operating cash flows, the Corporation enters into derivative contracts with financial intermediaries. A fluctuation of 10% in the USD price of heating oil or fuel would not have a significant impact on the financial statements.

G) LIQUIDITY RISK

The Corporation manages its liquidity risk by preparing and monitoring detailed forecasts of cash flows from operations and anticipated investing and funding activities. The liquidity risk is low since the Corporation does not have debt instruments to service and receives regular funding from the Government of Canada.

The reported financial liabilities in item a) above totaling $96.3 million (December 31, 2010: $126.2 million; January 1, 2010: $110.6 million) represent the maximum liquidity risk exposure for the Corporation.

The following table summarizes the contractual maturities for the derivative and non-derivative financial liabilities as at December 31, 2011:

[illegible]	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	Over 2 years	Total
Accounts payable and accrued liabilities	90.2	-	-	2.5	2.4	**95.1**
Derivative financial liabilities	0.2	0.3	0.6	0.1	-	**1.2**

The following table summarizes the contractual maturities for the derivative and non-derivative financial liabilities as at December 31, 2010:

[illegible]	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	Over 2 years	Total
Accounts payable and accrued liabilities	121.4	-	-	1.8	1.8	**125.0**
Derivative financial liabilities	0.3	0.2	0.5	0.2	-	**1.2**

The following table summarizes the contractual maturities for the derivative and non-derivative financial liabilities as at January 1, 2010:

[illegible]	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	Over 2 years	Total
Accounts payable and accrued liabilities	100.5	-	-	1.5	1.5	**103.5**
Derivative financial liabilities	1.7	1.7	3.2	0.5	-	**7.1**

H) INTEREST RATE RISK

Interest rate risk is defined as the Corporation's exposure to a loss of earnings or a loss in the value of its financial instruments as a result of fluctuations in interest rates. The Corporation is exposed to interest rate risk associated with cash and cash equivalents and the Asset Renewal Fund for a total of $47.2 million (December 2010: $117.7 million; January 1, 2010: $53.0 million). A variation of 100bps in the interest rates would affect the investment income but would not have a significant impact on the financial statements.

20. DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation uses commodity or price swaps where it exchanges cash payments based on changes in the price of a commodity (i.e. heating oil) or a market index. The Corporation also enters into foreign exchange forward contracts to either buy or sell USD at a specified price and date in the future. These contracts are related to fuel swaps and a future capital project.

At the end of the year, the Corporation had the following derivative financial instruments with positive fair values:

Description	Year	Fixed Price per U.S. Gallon (USD)	Notional Quantity (000's of U.S. Gallons)	Fair Value CAD (000's)		
	(1)	Dec. 31, 2011	Dec. 31, 2011	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Crude swap	2010	-	-	-	-	1,497
Crude swap	2011	-	-	-	3,769	1,178
Crude swap	2012	1.957 to 2.780	4,032	**1,509**	880	139
Subtotal				**1,509**	**4,649**	**2,814**

(1) These financial instruments have a monthly settlement schedule.

Description	Year	Forward Rate CAD / USD	Notional Amount (USD) (000's)	Fair Value CAD (000's)		
	(1)	Dec. 31, 2011	Dec. 31, 2011	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Foreign Exchange Forward	2011	-	-	-	-	136
Foreign Exchange Forward	2012	0.954 to 1.036	35,163	**652**	-	125
Foreign Exchange Forward	2013	0.992 to 0.997	2,534	**64**	-	-
Subtotal				**716**	-	**261**
Derivative financial instruments with positive fair values				**2,225**	**4,649**	**3,075**

(1) These financial instruments have a monthly settlement schedule.

20. DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D)

At the end of the year, the Corporation had the following derivative financial instruments with negative fair values:

Description	Year	Fixed Price per U.S. Gallon (USD)	Notional Quantity (000's of U.S. Gallons)	Fair Value CAD (000's)		
	(1)	Dec. 31, 2011	Dec. 31, 2011	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Crude swap	2010	-	-	-	-	(5,990)
Crude swap	2011	-	-	-	-	(159)
Crude swap	2012	2.840 to 3.070	7,056	**(1,057)**	-	-
Crude swap	2013	2.309 to 2.929	2,268	**(116)**	-	-
Subtotal				**(1,173)**	-	**(6,149)**

(1) These financial instruments have a monthly settlement schedule.

Description	Year	Forward Rate CAD / USD	Notional Amount (USD) (000's)	Fair Value CAD (000's)		
	(1)	Dec. 31, 2011	Dec. 31, 2011	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Foreign Exchange Forward	2010	-	-	-	-	(709)
Foreign Exchange Forward	2011	-	-	-	(996)	(195)
Foreign Exchange Forward	2012	-	-	-	(205)	-
Subtotal				-	**(1,201)**	**(904)**
Derivative financial instruments with negative fair values				**(1,173)**	**(1,201)**	**(7,053)**

(1) These financial instruments have a monthly settlement schedule.

The fair values of the derivative financial instruments are estimated as the discounted unrealized gain or loss calculated based on the market price at the end of the year, which generally reflects the estimated amount that the Corporation would receive or pay to terminate the contracts at the statement of financial position date. The fair values of the derivative financial instruments are provided to the Corporation by the chartered banks that are the counterparties to the transactions. The credit risk related to these banks is considered very low since the Corporation deals only with reputable and high quality financial institutions.

The fair values are determined using well-established proprietary valuation models, such as the modified Black-Scholes model, and incorporate prevailing market rates and prices on the underlying instruments. The Corporation has performed additional review procedures on the fair value amounts to satisfy itself that they are reasonable.

The discounting of the fair value of transactions is based on the boot-strapping method incorporating a set of bond yields over the term of the instruments in order to provide appropriate discount factors.

21. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business on trade terms similar to those applied to other individuals and enterprises and these transactions are recorded at fair value. Other than disclosed elsewhere in these Financial Statements, related party transactions are not significant.

The remuneration of key executives is determined by the Human Resources Committee having regard to the performance of individuals and market trends. The Human Resources Committee recommendation is then presented and approved by the Board of Directors.

The Corporation's key executives have been defined as the executive staff members that are members of the Corporate Management Committee.

The compensation of the key executives of the Corporation is as follows:

(IN MILLIONS OF DOLLARS)	December 31, 2011	December 31, 2010
Compensation and short-term employee benefits	2.5	2.8
Post-employment benefits	0.6	0.4

22. NON-MONETARY TRANSACTIONS

The Corporation recorded revenue from non-monetary transactions of approximately $1.3 million for the year ended December 31, 2011 (December 31, 2010: $1.4 million) under "Passenger revenue" in the Statement of Operations and Comprehensive Income. The Corporation also recorded expenses from non-monetary transactions of approximately $1.5 million (December 31, 2010: $1.4 million) mainly under "Marketing and sales" and "Other expenses" in the Statement of Operations and Comprehensive Income. The nature of non-monetary transactions is mainly related to advertising activities.

23. CONTINGENCIES

A) ENVIRONMENT

The Corporation's operations are subject to numerous federal, provincial, and municipal environmental laws and regulations concerning among other things, the management of air emissions, wastewater, hazardous materials, wastes and soil contamination as well as the management and decommissioning of underground and aboveground storage tanks. A risk of environmental liability is inherent in railroad and related transportation operations, real estate ownership and other activities of the Corporation with respect to both current and past operations.

The Corporation has performed a review of all of its operations and of all of its sites and facilities at risk in order to determine the potential environmental risks. The sites and the facilities for which environmental risks were identified were or will be the subject of thorough studies and corrective actions were or will be taken if necessary in order to eliminate or to mitigate these risks. The continuous risk management process that is in place allows the Corporation to monitor its activities and properties under normal operating conditions as well as monitor accidents that occur. The properties likely to be contaminated or the activities or property, plant and equipment likely to cause a contamination are addressed, at the moment of their observation, by the development of an action plan according to the nature and the importance of the impact and the applicable requirements.

When remediation costs can be reasonably estimated, a provision is recorded based on the anticipated future costs.

However, the Corporation's ongoing efforts to identify potential environmental concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities. The magnitude of such additional liabilities and the costs of complying with environmental laws and containing or remediating contamination cannot be reasonably estimated due to:

(i) the lack of specific technical information available with respect to many sites;

(ii) the absence of any third-party claims with respect to particular sites;

(iii) the uncertainty regarding the ability to recover costs from any third parties with respect to particular sites;

(iv) the fact that the environmental responsibility has not been clearly attributed.

There can thus be no assurance that material liabilities or costs related to environmental matters will not be incurred in the future, or will not have a material adverse effect on the Corporation's financial position.

B) ASSET RETIREMENT

The Corporation has entered into certain operating leases where the lessor has the option of requesting that the land/structures or the other assets be returned in the same condition as they were originally leased, or of retaking control of these assets without any compensation to the Corporation for any additions or modifications made to the initial assets. Given the nature of the assets under contract and the options available to the lessor, the asset retirement obligation cannot be reasonably estimated. No liability has been recognized in the financial statements.

24. SUBSEQUENT EVENT

On February 26, 2012, a train derailment with fatalities occurred and could have a financial impact for the Corporation. A class-action lawsuit was filed in the court of Ontario. The Corporation cannot, at this time, estimate the impact of this event.

CORPORATE DIRECTORY

BOARD OF DIRECTORS

Paul G. Smith,
Chairman of the Board
Toronto, Ontario

France Bilodeau
Quebec City, Quebec

Jeffrey R. Clarke
Ottawa, Ontario

Denis Durand
Montréal, Quebec

Angela Ferrante
Toronto, Ontario

David Hoff
Vancouver, British Columbia

Wendy A. King
Vancouver, British Columbia

Marc Laliberté,
President and Chief Executive Officer
Montréal, Quebec

Jean-Martin Masse
Montréal, Quebec

Donald Mutch
Toronto, Ontario

Anthony Perl
Vancouver, British Columbia

Eric Stefanson,
Vice-Chairman of the Board
Winnipeg, Manitoba

William M. Wheatley
Regina, Saskatchewan

COMMITTEES OF THE BOARD

AUDIT, RISK & FINANCE
Eric Stefanson, Chairman
Jeffrey Clarke
Denis Durand
David Hoff
Anthony Perl

CORPORATE GOVERNANCE
Angela Ferrante, Chair
Wendy A. King
Jean-Martin Masse
Eric Stefanson

HUMAN RESOURCES
David Hoff, Chairman
France Bilodeau
Angela Ferrante
Wendy A. King

INVESTMENT
France Bilodeau, Chair
Donald Mutch
Denis Durand
William Wheatley

REAL ESTATE, ENVIRONMENT AND MAJOR CAPITAL PROGRAM
Jeffrey Clarke, Chairman
Jean-Martin Masse
Donald Mutch
Anthony Perl
William Wheatley

OFFICERS

Paul G. Smith
Chairman of the Board

Marc Laliberté
President and Chief Executive Officer

Yves Bourbonnais
Chief Information Officer

Laurent Caron
Chief People Officer

Steve Del Bosco
Chief Marketing and Sales Officer

Yves Desjardins-Siciliano
General Counsel and Secretary

John Marginson
Chief Operating Officer

Denis Pinsonneault
Chief Customer Experience Officer

Robert St-Jean
Chief Financial and Administration Officer

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